

FINANCIAL TIMES

No. 26,959

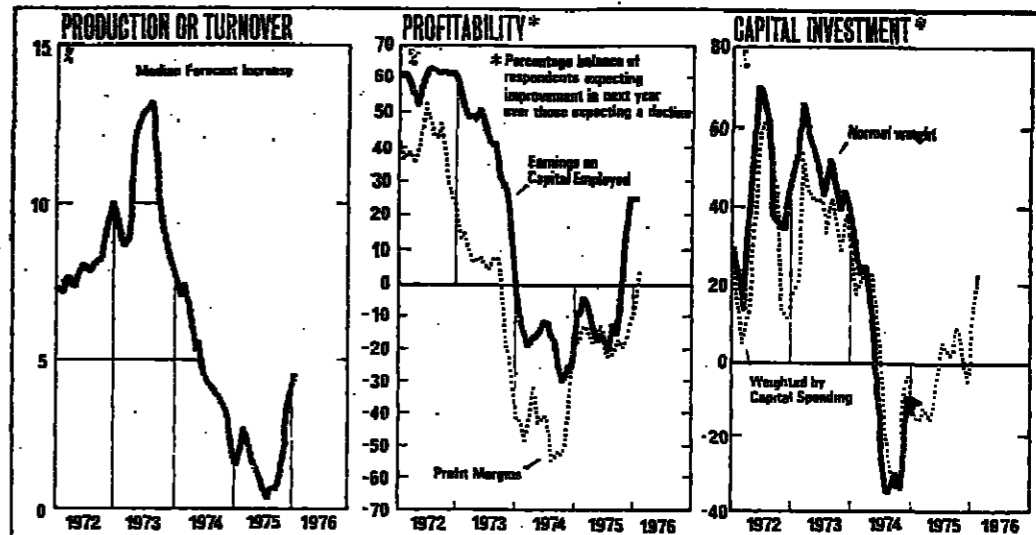
Monday May 3 1976

** 10p

CONTINENTAL TRADING PRICES: AUSTRIA S.1.75; BELGIUM F.2.20; DENMARK K.2.75; FRANCE F.2.20; GERMANY DM1.70; ITALY L.300; NETHERLANDS F.1.50; NORWAY K.2.75; PORTUGAL Ec.15.00; SPAIN Ptas.30; SWEDEN Kr.2.50; SWITZERLAND Fr.1.50.



FT Monthly Survey of Business Opinion



Brighter outlook for profitability

HOPES of a further moderation in the going rate of inflation, which have been generated by the Chancellor's 3 per cent. pay initiative, have made industry more optimistic about being able to secure a recovery in profit margins.

For the first time in almost three years companies looking forward to an improvement in profit margins now outweigh those expecting a further contraction.

Together with the growing evidence of a revival in industrial activity and the distinctly promising outlook for exports, which has been further boosted by the fall in sterling—the brighter outlook for profitability has led to a further rise in industrial confidence.

This emerges from the latest Financial Times monthly survey of business opinion which involved interviews with companies in mechanical engineering, brewing and distilling, and the paper, publishing, printing and packaging industries.

The prospect of an increase in real investment by industry also looks more favourable than for some time past. But, though the trend of forward manpower requirements is slowly improving, it is likely to be some time before industrial employment shows an overall increase.

Increased confidence in the mechanical engineering industry was based upon an upturn in the flow of orders—the expectation of one.

In the paper sector, the demand for packaging had improved, the printers were more confident that an upturn was on the way, and the publishers reported a revival in advertising outlays.

The distillers and brewers were also more bullish, notwithstanding the Budget increases in duties which many said was of the order that they had anticipated.

Details, Page 39

PROFIT MARGINS		4 monthly moving total				April 1976	
Those expecting profit margins over the next 12 months to:		Jan.-Apr. %	Dec.-Mar. %	Nov.-Feb. %	Oct.-Jan. %	Eng's. (non-elect.) %	Brews. and Printing & Distills. %
Improve		38	34	27	25	24	71
Remain the same		25	22	21	25	46	45
Contract		34	42	47	42	30	55
No comment		3	2	5	8	—	14

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Annual reports show fall

FINANCIAL TIMES REPORTER

AGGREGATE profits, published in the 180 annual reports and accounts issued in April, showed a fall of 7.1 per cent. compared with the previous year's figures.

The four main contributors to the lower trend were ICL, where the fall amounted to 35 per cent., Albright and Wilson with a 32 per cent. reduction, BICC, down 25 per cent., and Bowater, so far this year. Most of the larger companies raised their dividends by amounts ranging from about 7 per cent. to 9 per cent. Unilever's dividend was, in fact, up by 13 per cent., while BTR were outstanding in this respect, the company's near £6m. "rights" offer enabling a dividend increase of over 90 per cent. of 5.8 per cent., the lowest rise cent.

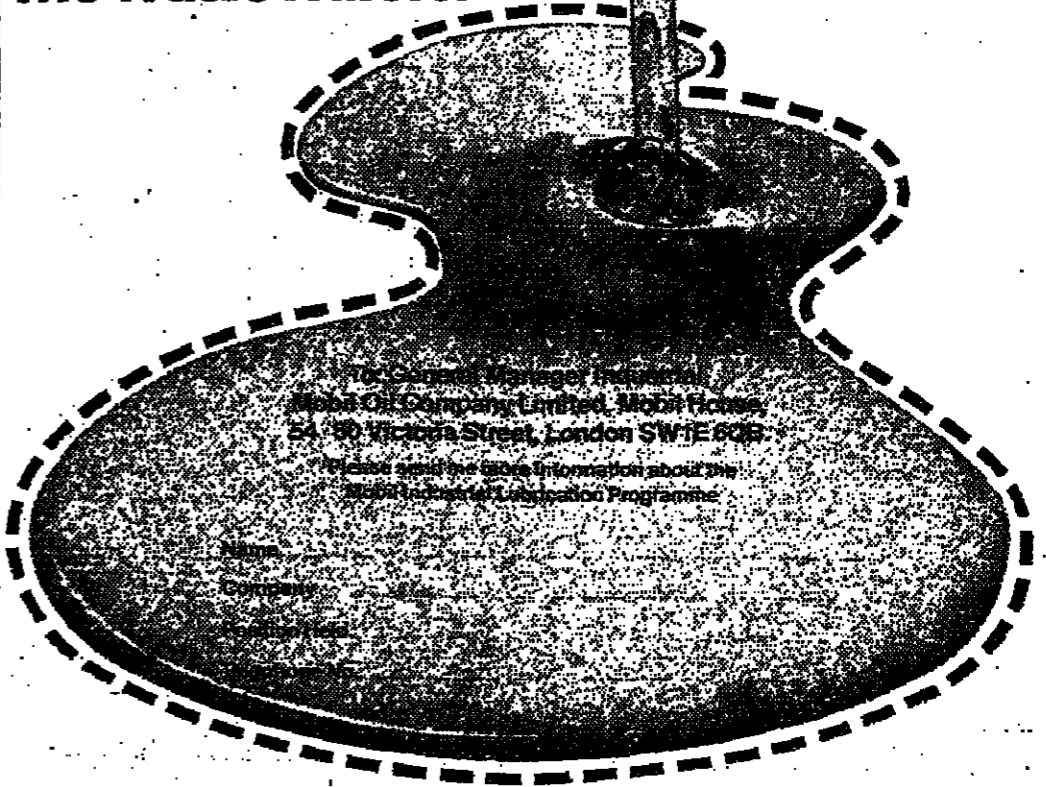
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Pay limit likely to be agreed by TUC this week

BY CHRISTIAN TYLER, LABOUR CORRESPONDENT

Leaders of the Trades Union Congress now seem certain to approve another year of voluntary wage restraint, tougher than the £6 limit that expires at the end of July, at a special meeting of the TUC general council on Wednesday. A pay limit of 4 per cent. or less is on the cards.

Although the precise pay norm has not yet been agreed, the outline established so far suggests that the Chancellor will on Wednesday be able to announce to the Commons that the TUC has accepted a limit close enough to his Budget figure of 3 per cent. to allow him to release to wage earners nearly £1bn. of tax cuts backdated to April 1.

Contacts between Treasury officials, TUC staff and union secretaries continued throughout the week-end. Optimistic public pronouncements came from Mr. James Callaghan, the Prime Minister, Mr. Denis Healey, the Chancellor, and Mr. Len Murray, TUC general secretary.

Worried

The announcement on Wednesday of a deal of 4 per cent. or less, with a cash minimum for the low-paid (some union leaders favour £2 for this) and a cash maximum for the high-paid, would undoubtedly help the all-round wage fall in recent weeks appears to have worried TUC leaders as much as it has the Government.

A bargain on Wednesday would also do no damage to Labour's chances in the local council elections on Thursday. The point that emerged most clearly from union leaders yesterday is that there is no prospect of them giving up the offer of tax cuts and pursuing a higher wage norm instead.

Decision to-day on Italian election date

BY ANTHONY ROBINSON

ROME, May 2.

THE DATE of Italy's forthcoming general elections will be decided to-morrow by the cabinet. The 28-year hegemony over Italian politics which is at last being seriously challenged.

The Communist Party (PCI) starts the election campaign with the evidence of last June's regional elections and more recent opinion polls pointing to gains compared with the May 1972 General Election result. This could bring the PCI level to the Christian Democrats or even into first place.

A Left-wing swing, if it occurred, would considerably alter the parliamentary balance of power but need not necessarily lead to the formal inclusion of the Communist Party into the Government. Much will depend on the Italian Socialist Party (PSI).

Co-operation

Most favoured in Italian political circles is some form of renewed co-operation between Christian Democrats, Socialists and smaller parties like the Republicans after the election. Although grounded on a form of co-operation with the Communist Party.

In such circumstances the PCI would be closely consulted over

Rhodesia timber row merchant denies sanctions policy breach

FINANCIAL TIMES REPORTER

MR. PETER MCALINSH, the Scottish timber merchant at the centre of the investigations into how the National Coal Board came to purchase timber from Rhodesia, yesterday denied that he had breached the Government's sanctions policy, and said he intended to emigrate to South Africa.

Mr. McAlinsh, who was reached by telephone in Nicaragua where he is setting up a sawmill operation, said he had visited Rhodesia several times in recent years and on one occasion, in 1974, had met representatives of the Rhodesian Wildlife Company.

It is this company, which, documents in the possession of the Financial Times reveal, exported the timber in July 1974, which eventually made its way to the National Coal Board.

"But neither I nor my company have ever at any time exported anything from Rhodesia nor indeed from Southern Africa," said Mr. McAlinsh.

"I was on holiday about two years ago and the Rhodesian Wildlife Company asked to talk to me because it had some problems. I chatted to them as an individual, but the meeting had nothing to do with my company."

The NCB has started a full internal inquiry into the affair and MPs on both sides of the House are expected to table questions on the matter.

The documents (copies of which were handed to the Financial Times by Rhodesian officials), and subsequent investigations, revealed that the 3,000 cu. ft. consignment of Rhodesian wattle checks, was shipped from Beira in Mozambique to Liverpool on July 10, 1974, aboard the British-owned vessel Clan McNair. The years and on one occasion, in 1974, had met representatives of the Rhodesian Wildlife Company.

Mr. McAlinsh said: "I took no money for my part in the transaction. I simply introduced the timber in July 1974, which eventually made its way to the National Coal Board."

He said the Perthshire company of which he is chairman and leading shareholder, does about 30 per cent. of its business with the NCB.

"If I'd tried to sell Rhodesian wattle to the National Coal Board, they'd have told me to go to hell. But I'd liked to have done so."

About two years ago the NCB expressed interest in buying

Hillier Parker
PROPERTY ADVISERS
London—West End & City
Edinburgh, Paris, Amsterdam,
Sydney, Melbourne, Brisbane

NEWS SUMMARY

GENERAL

Gunmen New doubt ambush over U.K. sugar prison officer supplies

A prison officer survived an attack as he returned home from the Maze prison in Northern Ireland yesterday. Police said that gunmen fired a shot at him from an overpassing car as he was driving to Derry, near Belfast, but the bullet missed.

The attack came only a day after Maze officers agreed to lift their ban on special privileges for Provisional IRA inmates.

Forensic experts yesterday sifted through the ruins of another big Belfast store gutted by bombers.

Cost of violence

The cost of seven years' conflict in Ulster—in security forces' operations and compensation payments for property damage and personal injury—has topped £300m. Personal and property compensation alone has cost more than £170m, or about £2 a head for everyone in the U.K.

Fire aboard nuclear sub

Fire broke out yesterday in a diesel generator room aboard the nuclear submarine HMS Warspite, berthed at Royal Naval Dock at Gosport on the Mersey. Three naval ratings were overcome by smoke and taken to hospital. The Defence Ministry said: "There is no nuclear hazard."

Ford stumbles in Texas

President Ford suffered a setback in his bid for the Republican presidential nomination when challenger Ronald Reagan won all 96 delegates in the party's Texas primary. Jimmy Carter crushed Senator Lloyd Bentsen to win the state's Democratic primary.

Rhodesia plans 'war' moves

Rhodesia's decision to extend the call-up of the territorial force and to launch a new anti-guerrilla initiative marks a further stage in the build-up of the 19-year-old war.

Embassy row

Political controversy that saved over reports that the Soviet Embassy is pressing the Government for permission to carry out two big property developments next to Kensington Palace Gardens in London.

Hunt disqualified

Britain's James Hunt finished first in the Spanish Grand Prix but was disqualified for exceeding the 100 mph limit on his car.

Cave drownings

Potential victim Anthony, 26, one of three survivors in a cave accident in the Yorkshire Dales on Saturday, vowed yesterday to "keep on fighting" with his friends.

Briefly

Another British-born official, Mr. Bob Astles, has been arrested in Uganda. Mr. Astles, a long-time member of the British intelligence service, was appointed by the Ugandan Amin to stamp out corruption.

Mr. Anthony Grosland, Foreign Secretary, left for China yesterday on his first overseas mission since taking up his new post.

A competitor at a hunt trial meeting on Humberstone, Michael Daniels, died yesterday after his horse threw him.

Weekly £50,000 premium bond prize announced on Saturday was won by bond number 32F 29404.

Winner lives in Glasgow.

Thousands of singing, dancing football fans thronged Southampton streets yesterday as their FA Cup heroes staged a victory parade in an open-top double-decker bus.

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Greenwich

Miss Julie

by B. A. YOUNG

Greenwich's production of Martin Shaw's fine performance of Strindberg's terrible play under the direction of the most... (text continues)



Crispin Gillbard, Hilary Hutchins, Bronwen Williams

The Cassilis Engagement

by B. A. YOUNG

St John Hankin's acid comedy was well worth turning up. It contains a lot of good parts, and its period, 1907, is one in which a handsome stage presentation is likely to be called for—a requirement well met at the Mercury by Sheila Godbolt's costumes and sets for the production.

Its theme of misalliance among the rich and well-connected is hardly a new one. The Cassilis Engagement falls in behind Trevelyan of the Wells and Caste. Where Hankin differs from his predecessors is in his wholly non-sentimental non-romantic treatment. Geoffrey Cassilis becomes engaged to pretty Ethel Borridge, whom he met on a penny omnibus (anyone remember those?); but since she is the daughter of a bookmaker and his vulgar and loose-living wife and he is the only child of a wealthy widow of Leicestershire there are sure to be difficulties.

Geoffrey persuades his mother to ask Ethel and Mrs. Borridge to stay at Deyham Abbey, where there are no recreations but riding and shooting and where they are exposed to Dukeries' society. Mrs. Cassilis receives them with kindness and courtesy; but she has no intention of allowing the affair to progress to a marriage (smashing first-act curtain line). Her plan is a simple one. She will bring her guests to death.

Hankin's style is a little too noticeably influenced by Wilde ("It is so wicked of Geoffrey—and so silly, which is worse"). Mrs. Cassilis's neighbour Lady Remondham (Mollie Stewart) is simply Lady Bracknell and can say "In an omnibus?" just as if she were saying "In a handbag?" But Hankin includes no pleasant characters at all. Finero or Maugham would have had some sympathy for Geoffrey and Ethel, but then this would have made a quite different play. As it is, Geoffrey (Crispin Gillbard) is a dull, uninteresting young man who reverts to the companionship of his pretty cousin Lady Mabel (Rosamund Shelley) as soon as Ethel reveals her inalienable hatred of horses; and Ethel (Hilary Hutchins) casually invites the de-bauched Major Warington (Peter Vaup) for a dirty weekend in Paris when the week overflows her.

The older generation are no nicer, for all their outward displays of good manners. Mrs. Cassilis (Bronwen Williams) and her sister Lady Marchmont (Marcia Warren) are appallingly deceitful in the pursuit of their plot; I really preferred the behaviour of the other guests who made no secret of their coldness towards Ethel and her mother. Old Mrs. Borridge, in a vivid performance by Barbara Hicks, suggests what would have become of Liza Doolittle if she had never called on Henry Higgins; it is a portrait chock full of malice and condescension and extremely funny.

The Mercury's company has some uncommon talents. In the comic scene where Lady Mary's after-dinner rendering of a Schubert Lied is capped by Ethel's of a music-hall song called "Stop your shivering or I'll slap yer" Miss Shelley and Miss Hutchins not only sing their songs presently but play their own accompaniments on a real grand piano. The harmonious direction is by David Buxton, the theatre's artistic director.

La vida breve

by RONALD CRICHTON

The first of the Falla centenary concerts in the present English season was a triumph. The first of the Falla centenary concerts in the present English season was a triumph. The first of the Falla centenary concerts in the present English season was a triumph.

For all the faults of construction and jumble of styles, the opera remains immensely appealing. Falla's already strong individuality and natural distinction override the eclecticism. The models include Massenet, Puccini, and a strong whiff of Louise (the subject and treatment of Louise rather than the Salud affair, the soloists add score—was anyone ever influenced by Chaperon's music?) At least the libretto of *La vida breve* allowed Falla to draw one portrait in round. Salud is passionate, devoted, proud, even when the underpinned turns bitter, dignified. Almost every bar of her music is filled with character, and the role has attracted eminent lyric sopranos from Marguerite Carré and Ninon Vallin to Victoria de los Angeles in our day.

Enriqueta Tarres, who appeared as Ariadne at Glyndebourne in 1962, at the outset of a career that has taken her to the most famous of opera houses, is an accomplished singer with a softer, creamier tone than one expects in the role of Salud. Her singing was well-schooled, well-rounded, with high notes rather than carefully covered in the German manner. A rawly melodic Salud would be awful, but one needs a hint of peasant background. None of the other characters count for much except Salud's grandmother, eternally crying woe. The unfaithful Paco has little to do but sound sincere and ardent in the brief but seductive love duet. Enid Hartle and Evelio Esteve took these special bouquets.

Ashkenazy & Davis

by DOMINIC GILL

As a happy change from the certain No. 2, later replaced by the Rondo "We know today," a phony and popular concerto, the London Symphony Orchestra, under the baton of Colin Davis, on Thursday presented as its centrepiece, framed by a Mozart and a Sibelius symphony, two lesser-known single piano-concerto movements by Schumann and Beethoven.

The soloist was Ashkenazy, who brought a certain bristling, as well as sweetness, to Schumann's little *Koncertstück* op. 92 ("Introduction and Allegro appassionato"). It was a nice, neat performance, made with a fine smoothness, suffused with a sense of well-being, though there are all the same of the quick exchanges, the sudden thrusts and parries between piano and wind, the sudden Sibelius's stabs of melancholy, which both Davis and Ashkenazy passed over in their mood of silvery good humour. We also heard a sparkling, hissing-tempered account of Beethoven's early Rondo in B flat (possibly the original finale of the B flat concerto).

Australian Sinfonia

by DOMINIC GILL

The second concert last Friday evening of the Australian Sinfonia's inaugural series... (text continues)

Kathleen Ferrier Memorial Scholarship

by ELIZABETH FORBES

The finals of the twenty-first Kathleen Ferrier Memorial Scholarship were held in the Duenna. He has a strong well-knit voice under excellent control: if the tone is sometimes a bit nasal, he can vary its colouration expressively. In an aria auditions from over 80 contestants by a panel of adjudicators, Kathleen while Edamante's Non ho colpa from *Idomeneo* showed scholarship. For the finals this resonant acoustic of the Wigmore Hall requires, demonstrated the tenor's flexibility of voice and his ability to trill. Kathleen's *Nochstück* was for study in Britain or abroad. The well-bellied tenor had heard the finalists each sing a programme of four items. The overall standard was commendably high, and no single competitor stood out head and shoulders above the rest, but three of them—two tenors and a soprano—were impressed by the professionalism which they were already able to bring to their performances. It came as no surprise therefore when Gerald Moore announced that one of the tenors—Keith Lewis—was the winner, while the other tenor—Richard Morton—had been specially recommended.

Keith Lewis (25) was heard earlier this year in the Camden Festival production of *The Schöpfung*. He has a strong well-knit voice under excellent control: if the tone is sometimes a bit nasal, he can vary its colouration expressively. In an aria auditions from over 80 contestants by a panel of adjudicators, Kathleen while Edamante's Non ho colpa from *Idomeneo* showed scholarship. For the finals this resonant acoustic of the Wigmore Hall requires, demonstrated the tenor's flexibility of voice and his ability to trill. Kathleen's *Nochstück* was for study in Britain or abroad. The well-bellied tenor had heard the finalists each sing a programme of four items. The overall standard was commendably high, and no single competitor stood out head and shoulders above the rest, but three of them—two tenors and a soprano—were impressed by the professionalism which they were already able to bring to their performances. It came as no surprise therefore when Gerald Moore announced that one of the tenors—Keith Lewis—was the winner, while the other tenor—Richard Morton—had been specially recommended.

Daniel Adni

by DAVID MURRAY

Daniel Adni's recital on Thursday was a triumph of musicianship over temperament—which must count, in a programme including Liszt's sonata and all the Chopin Ballades, as a victory on points. He began with the first six of Mendelssohn's *Songs without Words*, which require tact, delicacy and unfailing sweetness of tone. Mr. Adni has limitless reserves of these things; more he is impervious to the curse of the Elizabeth Hall, which makes every pianist sound as if he were over-pedalling—Adni's right foot has few equals in finesse. All the Mendelssohn, and two blissfully uninflected, neither too winsome nor too grand.

The Liszt B minor sonata which followed got an utterly serious reading, and beautifully modelled: the structure of the piece was as confidently articulated as one could wish, and with masterly control of colour and balance Adni's performance was really too secure to let any whiff of brimstone be detected, and perhaps that is not a scent he

Eve

by MAX LOPPERT

The Bromley Philharmonic Choir, who two years ago revived Massenet's early oratorio, *Marie-Magdalene*, on Saturday evening brought forward its success—Eve, the "mystery" in three parts of 1974, a second early triumph for the composer and a work with distinctive Massenet fingerprints distinguished through the assumption of 19th century French oratorio style. The performance, enthusiastic rather than refined under Audrey Langford's direction, was a disarmingly enjoyable experience.

Because the titillation (and thus the possible offence) of Massenet's sweet-sin musical style has to-day dropped away, the attraction of its choicest ingredients seems stronger than ever—the clinging, never-quite-cloying melody of which in Eve

Funny Peculiar

by B. A. YOUNG

I missed Mike Stott's comedy at the Mermaid. Now it has come to the Garrick garlanded with prizes, and I can only sporadically go along with it. The theme of the man in a conventional society—in this instance the young owner of a North Country suburban grocer's shop—who decides to live according to some principle commonly approved but usually ignored is a fertile one. It leads Trevor, in Richard Beckinsale's stunningly well-observed performance, into immediate adultery, the price of involvement being "Love thy neighbour" and "To thine own self be true" (which he thinks comes out of the Bible).

This gives us some pleasant comedy at seaside-postcard level (only very much more, outspoken) that might fill a television half-hour. The rest of the play is filled with little self-contained episodes that have small bearing on the main story. Trevor expresses sympathy for the Vicar, who is accused of being queer, and who reacts by going out and hanging himself from one of the bell-ropes in his church. There is some fun with the village halfwit, halfwit

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THE JOBS COLUMN

17 years of mis-match

BY MICHAEL DIXON

MY files go back no further than 1959, which is a pity. But they enable me to state firmly that since at least the time of the "never-had-it-so-good" general election, evidence has been officially available that the types of abilities being fostered by our education system were out of line with those required for the running of our economic and associated activities.

The 17 ensuing years have seen great increases in the size and expense of the education system. They have also seen a noticeable increase in the complaints about the "mis-match" and, arguably, in its debilitating effects.

For 16 of these years, government's only evident response to the problems was to leave it to be overcome by co-operative activity between academics—whose career interests are generally best served by the expansion of their particular academic subjects—and industrial leaders—who generally seem to have given little consideration, and still less deep thought, to manpower questions.

But about 12 months ago,

there suddenly appeared a hope that something might at last be done with a view to correcting the mis-match.

Lord Crowthurst-Hunt, then Minister of State for higher education, declared that this country now needed to adopt a "manpower-planning" approach in the planning of educational provision would take into account the best evidence we could gather about the type of skills needed by working organisations.

On close study, the basic view of Lord Crowthurst-Hunt—an Oxbridge don—appeared to be that the practices of higher educational institutions were the prime determinant of the practices of secondary and, still to a considerable extent, primary schools. So unless the higher institutions were prodded into paying more attention to the working world's needs, the schools were also unlikely to take the necessary steps, including the one of arresting the apparent decline in numerate skills among young people.

The effect of this sign by a member of the Government that he wanted to do a bit of govern-

ing was to alarm the educational lobbies and Lord Crowthurst-Hunt's educational civil servants. Perhaps significantly, he was soon afterwards replaced as Minister of State for higher education by Mr. Gerald Fowler. This week-end Mr. Fowler delivered what I take to be his first major speech on the same topic. He too singled out the tendency for many children to give up numerate subjects at an early age, and acknowledged the need for a supply of young people "educated to consider problems dispassionately and to reach conclusions on evidence rather than prejudice."

It is therefore seems that the importance of the mis-match is known to Mr. Fowler, and judge by some of the strictures of his Cabinet-ranking chief Mr. Fred Mulley, the Secretary of State for Education and Science is also aware of the problem. The only difference between them and Lord Crowthurst-Hunt is evidently that they have now abandoned the idea of Government trying to do anything about it.

FINALLY three jobs on offer through PER. Inquiries by

telephone as indicated.

Geoff Sumner 10734-595666 is seeking a qualified accountant to work in Acton, London, for Ultra Electronics as a divisional chief accountant. Divisional turnover is £3m. Candidates, aged at least 27, need experience of costing in electronics or light engineering, plus good knowledge of financial accounts, budget-preparation, as well as experience of providing management information to senior executives. Salary about £5,500. Lyman, Barrett (0203-29495) wants two people to work in London for British Leyland International.

One is a graduate with marketing experience to work as market planning supervisor, taking charge of data analysis and developing short- and long-term marketing plans. Salary £5,000-£6,000. Car.

The second is a chartered accountant with experience in a manufacturing concern with operations overseas including Europe. As senior analyst, accounting standards, recruit will draw up and develop accounting policies for B.L.I. Salary about £5,500. Car.

HOME NEWS

Modest growth forecast by Phillips and Drew

BY ANTHONY HARRIS

INFLATION under a 4 per cent second stage incomes policy would reach about 6 per cent, according to the May economic forecast of stockbrokers Phillips and Drew.

The forecast assumes that the existing 26 increase will be consolidated into the basic rate during the year. It is believed that the Government is trying to avoid this consolidation in its talks with the TUC.

However, the main factor in this relatively high forecast of inflation is the expectation that commodity prices will rise, together with the effect of the recent fall in the exchange value of sterling.

"Labour costs per unit will deteriorate sharply. We believe that the slow-down in labour costs will more than offset the effects of imported inflation," says the forecast.

The forecast for growth is modest. Phillips and Drew say that the Budget was less generous than it had assumed in earlier forecasts and it now

seemed likely that real disposable incomes would be little changed for the next year and a half, falling by 0.5 per cent, this year and recovering by 0.5 to 1 per cent next year.

Private savings might drop by perhaps 1 per cent of income due to returning confidence, but the growth of consumption would still be subdued.

The exceptionally good trade figures for March were thought to reflect an accelerated growth in world trade, and though the volume growth was not expected to be as rapid as had been suggested by recent figures, the deficit on the balance of payments was expected to be reduced to £1.3bn, this year and £0.8bn next year.

A sharp recovery in company cash flow was, therefore, forecast as the counterpart of the high price level. The forecast for the difficulties the authorities would face during the coming months were not so much to finance the Government deficit as to finance the balance of pay-

ments deficit, especially since the fall in sterling would worsen the current balance.

The IMF might not be willing to grant conditional credit for balance of payments finance unless the Government tightened its economic policies.

Favourable

A somewhat more favourable view of the economy and its prospects is taken by Dr. David Lomas, economic adviser to the National Westminster Bank, in a review released to-day.

Forecasting strong growth in most industrialised countries, especially the U.S. and West Germany, he believes that the recent improvement in indicators for the U.K. economy will be sustained.

Both forecasts agree that the fall in sterling has improved U.K. competitiveness, but Phillips and Drew argue that there is still likely to be some small further depreciation towards the end of the year.

Esso now decides to end subsidies

Financial Times Reporter

ESSO HAS followed Shell BP in announcing an end to subsidies which have encouraged the petrol price war to service stations.

Priced at 10p, it is expected to come to a fairly abrupt end, which has about 6.5p, confirmed at the we that its subsidies on the petrol prices would be drawn from midnight W day.

Shell, with about one-third of the U.K. market, ended its subsidies on Friday and BP followed suit this Friday.

Esso, in common with other major oil companies quoted rising costs as one reason for ending subsidies to its dealers. The pound has added some 22p to the companies' crude oil bill since last November.

"This, together with cost-inflationary effects experienced by the company and its dealers, means pump prices will have over the next week or so Esso. The company now maintain cash flow to its North Sea oil development.

Although the oil companies have agreed to price of four-star petrol 71.5p to 78p or 79p a Esso said that the actual of prices would depend on individual dealers. If changed, it would "real position."

Other oil companies are reducing price support to are National and Petrofin is keeping its options open. Barclaycard is advising retailers to insist that its out petrol sales on credit in words as well as figures call results from the d that some motorists are cheated by petrol-pump dants who have altered card slips and then take money out of the forecoun Cases have also been covered where attendant used a motorist's card to stamp blank credit no filled in later.

Barclaycard's advice motorists is: "Don't I credit card out of yo and make sure you credit slips against your men."

Halewood's best month for a year

THE FORD car plant wood, Liverpool, had a full April. The factory out 950 cars on more in any other month for than a year.

It was also almost str although the four-day holiday cut into producti There was a loss of 6,000 March because of it cannot and should not be forced into a single pattern.

Urging the retention of a on-ly Board system, Eastern Ford's spokesman said day for the month of April was the title when the April were released this week.

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OVERSEAS NEWS

Rhodesia changes tactics by extending army call-up

BY TONY HAWKINS

SALISBURY, May 2.

RHODESIA'S decision to extend the call-up of the territorial force and the launching of a new anti-guerrilla initiative marks a further stage in the escalation of the 31-year-old war.

In a surprise announcement flashed on Radio Rhodesia early on Saturday morning, it was announced that the territorial force (then currently doing their 12 months' air force, police or internal affairs department, and those who completed this service within the past three to four years) are now to be on "continuous" call-up.

This does not affect the older men in any of the reserve units, but concerns men in their early and middle twenties. At the same time, the security forces' headquarters revealed that it has advised Government to extend the call-up of the territorial force from 12 to 18 months.

Government has said that because of the "wide implications" of such a move, it needs time to consider this suggestion and a decision has been promised for this week.

The commander of the Rhodesian army, General Peter Walls, explaining the widened

call-up said this would give the forces the necessary manpower to "wrap up" the terrorist menace.

The change of tactics from a "contain and hold" strategy to the offensive will end "the South African newspapers are speculating that the Government, which withdrew its forces from Angola six weeks ago, may be holding Cuban prisoners as hostages against the release of South African troops captured in the Angolan civil war, Reuter reports from Johannesburg. A Defence Ministry spokesman declined to confirm or deny the possibility.

present stalemate," the General said. "In the previous circumstances the terrorists were not going to win but neither were we. Now they have even less prospect, but we have the chance of getting to grips with it and wrapping it up."

General Walls said that there had not been a deterioration in the situation, but rather it had been decided that the time was now opportune to go onto the offen-

sive. Guerrillas taking refuge across the border in neighbouring countries (mainly Mozambique), would, if need be, be pursued across the border and destroyed.

In a communiqué, Security Forces Headquarters announced that another 12 guerrillas have been killed in the past two days bringing the number of guerrilla casualties in the past eight days to 24 and the total killed so far this year to 180.

It has also been announced in Salisbury that the main Salisbury-Johannesburg road—closed since the murder by guerrillas of the three South African tourists on Easter Sunday—will be open again in day-military and there will be four military convoys leaving Beit Bridge and Fort Victoria north and south each day. Unescorted traffic will be able to use the road as well from 7 a.m. to 3 p.m., except local traffic, which will be able to use the road normally.

Tim Chigodo reports from Lusaka: President Kaunda has called on black workers inside Rhodesia to wage economic war in order to bring the illegal regime down.

West Bank on state of alert

By L. Daniel

TEL AVIV, May 2.

ISRAELI Security Forces in the northern part of the occupied West Bank were put on a state of high alert this morning as May Day demonstrations in Nablus, Tulkarm and Jenin deteriorated rapidly into riots yesterday.

In Nablus, high school youngsters demonstrated outside schools, set up roadblocks, and stoned Israeli soldiers and frontier police. The disturbances were particularly severe in the narrow lanes of the "Casbah"—old market—of Nablus where an Israeli patrol was surrounded by a large mob. A 19-year-old was hit by a warning shot and later died in hospital. The rioting continued and by mid-day curfew was imposed at the "Casbah" and in Tulkarm but was lifted in the evening.

Elsewhere, there was no violence during the May-Day demonstrations organized by the Communist Party both in the West Bank and in Galilee, where there is a large concentration of Israeli Arab population. Nationalist rather than Communist slogans dominated the demonstrations, including one organized for local Jewish and Arab supporters of the Rakach Communist Party. Meanwhile, another strike by the civil servants hit Israel today.

UPI adds: Prime Minister Yitzhak Rabin has warned the newly-elected officials to stay out of politics or risk a "heavy-handed" Israeli reaction that could include the closure of the bridges linking the West Bank with the rest of Jordan.

In Beirut, the Palestine Liberation Organisation praised a speech made by Egyptian President Sadat in which he hailed the Arab election victories and anti-Israeli demonstrations on the occupied West Bank.

Men and Matters Page 12

The postponement of the elections for a Lebanese President has brought on a new round of fighting. Michael Tingay reports from the front line.

A night at the Beirut Bourse

He had received two months' with filth. Breaking the line of basic training and an additional an arch, a telephone receiver using live ammunition before coming to the front, he said. Two of his friends were badly injured there in training. "We have girls of course," he went on. "They pass or fail just like a man."

A 15-year-old Lebanese boy gun. So we push on whatever

out his 160 rounds for his Kalashnikov. An elegantly blazer individual wandered in with his assault rifle, his clothes contrasting with the units worn battle fatigues. A seven-man unit was sent to the Syrian and Lebanese bank, less than three blocks away and taken earlier in the day after a bloody clash.

As the 1 a.m. crews dug in, a new barrage began. From the second floor a mattress office facing away from the front and once a Phalangist rocket and sniper position gave a full view as rocket after rocket burst on the Hilton and the Holiday Inn. The latter's lights were blazing defiantly from the eighth to 13th floors.

Shelling intensified as the hours passed drowning the sound of a battle round the Syrian and Lebanese bank only blocks away. The bank was held only tenuously by the Left, and the Right were trying to recapture the position. Tracer bullets slammed and ricocheted round the hotels. The fifth shell of the night struck the bourse and another in the stream of 155 mm shells whistled into the graveyard next door—a crashing explosion rocking the bourse's wall.

By 6.15, after 12 hours, some 350 shells and rockets had exploded in the vicinity, one shell every two minutes at a cost ranging from \$150 to \$250 per shell. Downstairs, the Mourabitoun faces were grim. The overnight shift was back; two of them limping from shrapnel wounds. The engineering student had left the bank to take his friend to hospital. On return, the Phalangist rockets had battered the defences and five were shot dead—Dracula, two men from Kamal Younis Socialist Union, and two other Leftists.

A five minute car journey at breakneck speed through morning sea mist and detritus strewn streets was all it took to regain Beirut's other rather unreal world. Back only one mile. West Hamra street could jostle with traders and pediclers from their large cars to drinks and dinners and never-ending debates in the plush Bristol Hotel.

Portuguese army chief hints he may stand for President

BY PAUL ELLMAN

LISBON, May 2.

GENERAL Antonio Ramalho Eanes, the Portuguese army's chief of staff, is understood to have indicated to political leaders a set of conditions under which he would be prepared to seek the presidency.

The general, widely credited with masterminding the crushing of last November's abortive Leftist rebellion, has been the subject of wooing from the country's two biggest parties—the Socialists and the Popular Democrats—since general elections last Sunday produced a stalemate which threatens a major political crisis.

The failure of any of the major parties to win a clear mandate from the electorate has focused attention on the poll for a new president scheduled to take place this mid-summer. Under Portugal's new constitution, the President will enjoy wide-ranging powers in conjunction with the military leadership which could prove crucial if, as expected, the freshly-elected national assembly fails to unite behind a government able to

count upon a majority of the 263 deputies.

So far four candidates have been named—Admiral Jose Pinheiro de Azevedo, the present Prime Minister, Brigadier Pires Veloso, the commander of the northern military region, Major Otelo Saraiva de Carvalho, who is awaiting formal charges in connection with his alleged role in November's uprising, and General Carlos Galvao de Melo, the air force officer who played a prominent role in the coup of April 25, 1974, but who subsequently disassociated himself from the leftward trend of the revolution he helped to start.

Initially, Gen. Ramalho Eanes believed he had suggested the name of Mario Soares, the Socialist Party leader, should run for the presidency, indicating in an interview that he did not see why there should not be a civilian head of state. Dr. Soares, already pledged to forming a minority socialist government which would include independentists and military representatives, apparently fears that this

would leave his party open to a takeover by Dr. Lopes Cardoso, the left wing agriculture minister.

Gen. Ramalho Eanes is understood to have said he will accept the nomination only if he can be assured that there will be no other candidates—in effect that the presidential poll will be a plebiscite.

At the same time, the general is also understood to have insisted that, should he become president, he would also be guaranteed the post of Chief of the Combined Chiefs of Staff.

Those who have been involved in the secret negotiations with Gen. Ramalho Eanes admit that they remain uncertain as to his personal politics, although he has indicated through sources with regular access to him that he is a democratic socialist, and appears to be counting on his previous performance as an opponent of the far left and his pluralism to ensure that he will hold together Portugal's fragile parliamentary democracy.

Peace move in Bonn print strike

By Adrian Dicks

BONN, May 2. A HINT of new negotiations in the German printing dispute, which has left the country without newspapers for five days now, emerged over the week-end. Herr Leonhard Mahlein, president of the printers' union IG-Druck und Papier, said he could see new talks with the employers beginning as soon as Tuesday.

Herr Mahlein insisted, however, that the employers' federation must give the union written confirmation of its willingness to end the combined nation-wide strike and lock-out. He also repeated earlier demands that the lock-out must be called off before the negotiations could begin.

The employers, for their part, suggested last night that the strike and lock-out should be simultaneously ended, and that each side should now enter new negotiations without further pre-conditions.

IG-Druck has been holding out for a pay rise put at slightly over 9 per cent, which the employers have met with an offer of about 5.4 per cent—the figure at which most other 1976 wage deals have been concluded.

Reuters adds: Printing employers today promised end the lock-out of printshop workers and brought hopes of ending the pay dispute. The printers' union said it had been informed by the employers that the lock-out would end at 6 a.m. to-morrow.

Takeover warning

Mr. Forbes Burnham, Guyana's Prime Minister, yesterday expressed concern over the slow progress being made over negotiations between his Government and Booker McConnell for the impending May 28 nationalisation of the assets of the British Company, reports our Georgetown correspondent. He warned that if the negotiations are not concluded in time for the vesting of the assets in the State by May 28, the Government will enact the necessary legislation to facilitate the takeover.

Fed official says banks must balance expansion

BY STEWART FLEMING

NEW YORK, May 2.

A WARNING that a new impression and that the mistakes acceleration in the rate of growth of U.S. commercial banks could bring with it further strains on bank capital and liquidity has been issued by Mr. Richard Debs, First Vice-President of the Federal Reserve Bank of New York.

In a speech to the New York branch of the American Statistical Society, Mr. Debs claimed that at present many, if not most, of the problem loans facing the banking industry as a result of inflation and recession are on the way to being resolved.

Moreover, he suggested that the overconfidence in the banking industry and the excesses of which stemmed from it in the past few years have left a deep

impression and that the mistakes will not soon be forgotten. But Mr. Debs, speaking on Friday, warned that now a strengthening of bank capital, liquidity and earnings should get top priority.

Banks he suggested must balance expansion plans against tightened standards of financial prudence and many need to pass up some opportunities for expansion or short-term profits in order to avoid undue additional risks.

In particular Mr. Debs warned that he would "question the wisdom of most new incursions into non-banking areas where banks have little knowledge or expertise and certainly into financial areas such as securities activities," a means for banks to maintain their forward momentum.

Kissinger's bank plan

Shifting his attention from Southern African liberation to Third World economies, Dr. Kissinger, U.S. Secretary of State, flew from Dakar, Senegal, to Nairobi last night to attend the United conference opening here this week, reports our Nairobi correspondent.

In a major speech to United Thursday, Dr. Kissinger is expected to outline a U.S. plan for an international resources bank raising up to \$10bn. of capital by selling bonds to finance Third World projects.

This proposal will probably dodge the controversial Third World problems of price stability and concentrate on measures to step up production and export of raw materials and commodities of the developing countries. Industrial countries and open nations would, it is proposed, share the \$10bn. initial capitalisation costs.

May Day clashes

Hundreds of people were under arrest throughout Spain after fierce May Day clashes between police and demonstrators. Reuter reports from Madrid. Informed sources said that more than 150 people were arrested in Madrid where 4,000 supporters of the

banned Communist Party gathered in a suburban park to sing revolutionary songs and listen to fiery speeches calling for trade union and political freedoms. As the meeting broke up police on foot and horseback charged into several hundred chanting youths and set about them with clubs. In Barcelona police fired rubber bullets and tear gas at thousands of demonstrators shouting "down with the crowned dictatorship."

Venezuela oil

Venezuela's oil production fell by 19 per cent in the first four months of 1976 compared with the same period last year, Reuter reports from Caracas. A Mines and Hydrocarbons Ministry report issued yesterday said the country had produced an average 2,096,000 barrels a day so far this year.

Bomb in Georgia

A bombing on April 12 and a series of fires in public buildings have shaken the Soviet Republic of Georgia, where authorities are conducting a massive crackdown on graft and corruption, according to dissident sources, UPI reports from Moscow.

Crash controversy

The death of liberal politician Alexandros Panagoulis in a car crash at dawn on Saturday has sparked off a controversy in Greece over whether it was an accident or a political murder, our Athens correspondent writes.

Tarbella trouble

The world's largest earth and rock-filled Tarbella dam in Pakistan is in trouble again, our Karachi correspondent reports. This is the third time in less than three years that the dam is in trouble. After repair work which has cost about \$60m.

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BUSINESS SCHOOLS

EXECUTIVE HEALTH

Three rules

Students with common sense, or innate intelligence, paper are not the best for hire; rather they must know something; in particular, they must possess a working knowledge of the basic disciplines.

2. Management should seek students from schools dominated by the best theoreticians.

Less depth

On average, I believe the best students attend MIT, but its outstanding faculty does not offer as much depth as Chicago's. At MIT a theoretician, Robert Merton, is among the top five in the world and there is also Franco Modigliani, a leading econometrician who has pioneered valuation and cost of capital theory and empirical tests of monetary economics.

measurement with Modigliani at MIT; Eugene Fama and Myron Scholes are perhaps the finest empiricists anywhere. James Lorie is an outstanding instructor who possesses a unique ability to teach modern finance and is a co-author of the most readable text in the field of investments, *The Stock Market Theories and Evidence*, and together with Lawrence Fischer is author of the first important research on investor performance; Robert Hamada, best known for his penetrating

Institutions. The economics department offers Milton Friedman in monetary and political economics. Harry Johnson in international trade, and Arnold Harberger, Gary Becker and Sam Peltzman in price theory. Econometricians Arnold Zellner and Henri Theil and statistician Harry Roberts are also consistent contributors to the school's reputation.

The third best school is the University of California at Berkeley where Mark Rubenstein, ed. Barry Gold, an ex-

The five schools making the most significant progress are Carnegie-Mellon, Hawaii, Florida, Columbia, and Michigan.

BY DR. DAVID CARRICK



Such is true of an ill-named and inadequately studied condition known as epidemic myalgia or myositis, otherwise known as epidemic disease of the muscles.

Dispelled

Severe pain

The cause was unknown but is now believed to be due to a specific virus which does not confine its activities to so limited a locality. In my experience, the disease may be localized so that the sufferer is seized by severe pain in the lower chest, shoulder and neck.

If such treatment is in season after the most dist condition commences, it is rapid, although slow relapses may occur. muscle-spasms are we trenced, then the strugg be lengthy and beyond the scope of the NHS, a lame state of affairs in the case of sickness-absence meritorious little virus cause.

In such cases there must be a constitutional upset with

ever. More commonly, the onset is more gradual but involves the same areas plus the upper part of the back, an area above the collar-bone and one or both arms. The lower back and, very rarely, abdominal muscles may also be affected as may almost any muscle group. Constitutional disturbances, are exceptional rather than common, but include fever, depression and general malaise.

The affected muscles are tender and in spasm. Commonly there is a headache, notably

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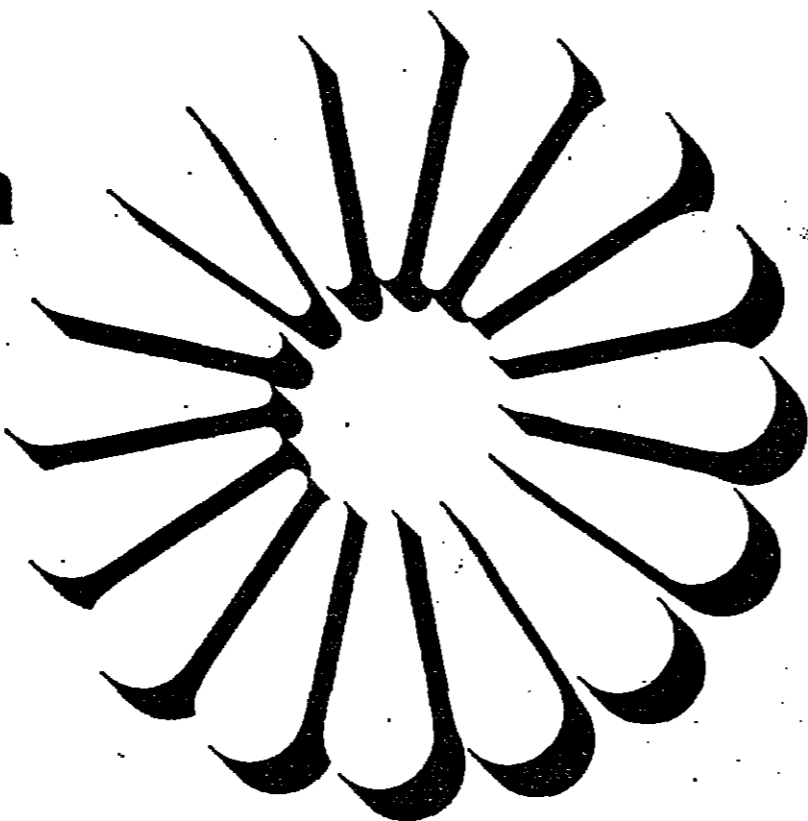
Each day, and night, our soldiers are guarding our security. Please help us to help them and their families when the need arises.



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Stewart Wrightson (Reinsurance Brokers) Limited Non-Marine Claims Department	From Monday May 17		
Stewart Wrightson Limited			
Stewart Wrightson (Aviation) Limited			
Stewart Wrightson (North America) Limited			
Stewart Wrightson (Surety & Special) Limited			
Non-Marine Policy Department			
Stewart Wrightson (Marine) Limited	From Monday May 24		
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		Note:	The Telephone/Telex/Cables are the same for both City addresses
		The departments and Companies at present at our Kingston-upon-Thames address will remain there. The address is:	Stewart Wrightson Kingston Bridge House Church Grove Kingston-upon-Thames Surrey KT1 4AG Telephone 01-977 8888/01-977 8855 Telex 822606 Cables Luldhne Kingston.

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BOOK REVIEWS

Politics at work

Power in the Office, by Michael Korda, Weidenfeld and Nicolson. £4.25.

IF YOU are in the habit of carrying books in trains or buses, this work presents a real problem. I carried *Power* in the Office across the London transport system for the best part of three days, eventually overcoming the suspicious glares and getting down to read the "worldwide bestseller of intrigue and manoeuvre."

Consider the problem. How can any editor worth his position have such a manuscript to anyone who has been on the same staff? What are the chances in the power game of anybody who is singled out as being the only one who is not to be reviewed if he writes about the matter, and the chances of Mr. Korda, whose most secret thoughts on the power struggle have been committed to open paper? What did Mr. Korda do in the power struggle at the Financial Times, on which, the dust jacket says, he worked "briefly" in the 1950s and to whose champion, the late Lord Bracken, he dedicates this book?

We need not worry on Mr. Korda's behalf, because the dust jacket tells us this is a best seller already. Which makes me feel less brazen in daring to suggest that this very amusing work could have been better produced—while being the first to admit that I wish I had thought of writing it myself.

The main complaint to be made about *Power in the Office*

effusive recommendation already is that, notwithstanding some given it by Professor Northcote Parkinson, much of it is less rivetingly readable than such great works of the genre as Parkinson's *Law* itself and Stephen Potter *passim*.

One has to work one's way through to page 96, before catching first glimpse of Korda's Law, which I take to be: "People rise to a level of power just one step beneath that which would make them feel secure." As Mr. Korda points out this is reminiscent of the Peter Principle: "In a hierarchy every employee tends to rise to the level of his incompetence."

The devastating simplicity of Korda's Law does not impair its eternal truthfulness one iota. Just think of the company chairmen who would feel more secure as Prime Minister: of the U.S. Presidents who would have been happier reincarnated as gods without tape recorders; of the mythological gods who thought someone was getting at them; of all those omnipotent atheists who bore down with their doubts.

Alas, Mr. Korda does not develop his own law very much. Maybe he is too secure to feel the need. But for anyone who wants a highly entertaining anecdotal account of office life and office politics, office plays and counterplays, Mr. Korda assembles a rich collection, culled from both sides of the Atlantic.

Foreign business languages

MANY businessmen are hampered in their approaches to foreign markets by uncertainties about the right languages to use in different parts of the world, according to Elbis International, a relations services group.

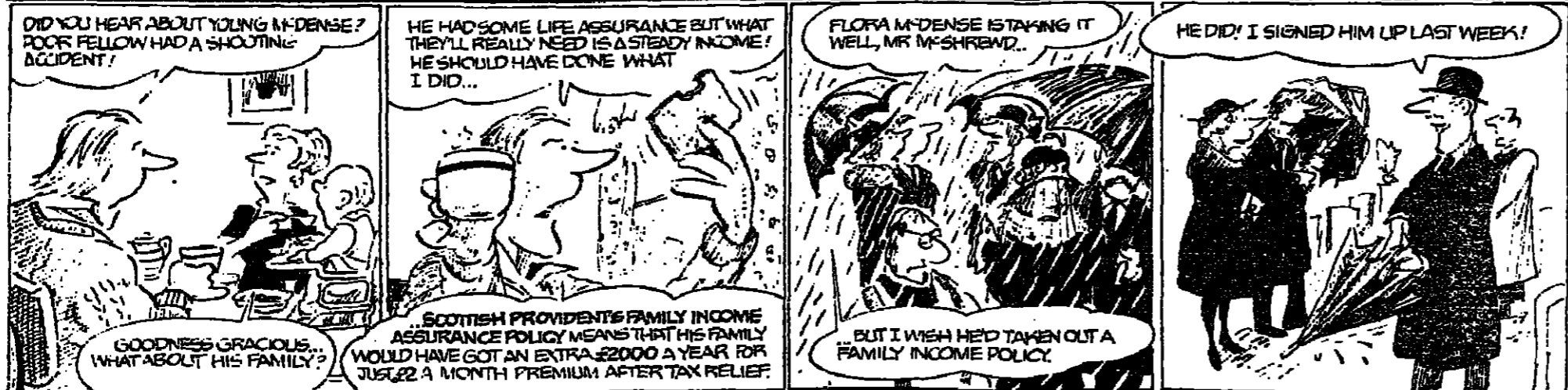
It has produced a booklet called "World Press and Business Language" aimed at Press officers and publicity managers and gives information on the main Press and business languages in most of the world's countries.

There are also notes on multilingual countries and the booklet points out the relative importance of trade journals in East Europe, many of which have circulations of over 100,000.

One reason for this high circulation is the rigid control of product advertising.

World Press and Business Language, Elbis International, 3 Johnson's Court, London EC4. Price £2.50.

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HOME NEWS

Sandilands may force cuts in dividends

BY MICHAEL LAFFERTY

MANY companies will have to consider cutting dividends when the Sandilands method of inflation accounting comes into force, according to London stock-brokers Phillips and Drew.

Only substantial modifications to the Sandilands recommendations, or much more rapid increase in profits than at present seems likely, will prevent this happening, the brokers say.

They estimate that even next year, which could represent the peak year of the present profits upswing, only half the 30 companies in the Financial Times index will be earning enough on the new basis of inflation profits to cover present dividends.

Phillips and Drew does not agree with the popular belief that in general companies have over-distributed in the past few years, although it accepts this is true in some cases. "With this background it is difficult to

justify the introduction of a replacing stock exceeded its original price. This concept should be extended to cover working capital appreciation, including stocks and all other assets and liabilities making up working capital of a company.

The other feature of the Sandilands recommendations with which Phillips and Drew disagree is the treatment of what are called holding gains. These are the gains which arise over time simply as a result of holding—as opposed to selling—assets and, as such, are not considered part of operating profits in the Sandilands report.

Phillips and Drew believes that the proportion of these net gains which is attributable to borrowed money should be available for distribution in dividends together with the operating profits.

The effect of these proposals would be to show lower profits or financial companies such as banks but greater amounts available for distribution for almost all other companies.

Holding gains

Under the Sandilands system, profits were arrived at after deducting stock appreciation—the amount by which the cost of

'The only way to be richer'

If Britain wants to be a richer nation, she must produce and sell more goods and services. "There's no other way," says a free mini-textbook issued today for workers, housewives, pensioners, students and shop stewards, writes Michael Lafferty.

"Why investment?" illustrates the importance of investment, which is published by

Facts About Business, an organisation headed by former Conservative MP Sir John Foster.

"British businesses can't invest if they don't have the money to-day for workers, housewives, pensioners, students and shop stewards," writes Michael Lafferty.

"Why investment?" illustrates the importance of investment, which is published by

effect. It provides money for more investment and encourages people to put their savings in industry, so there is more in the kitty for further growth.

"Why investment?" is published by Facts About Business, PO Box 443, 5, Plough Place, Fetter Lane, London, EC4P 4LS.

Reports of honours list objections untrue, says Wilson

BY PHILIP RAWSTORNE

SIR HAROLD WILSON, the former Prime Minister, yesterday flatly denied that publication of his resignation honours list had been delayed because of official objections to three proposed life peerages.

Reports that the Political Honours Scrutiny Committee had questioned the inclusion of a city financier, a financier-impressionist and a businessman were "totally untrue," Sir Harold said.

The committee—whose members are Lord Crathorne (Con.), Baroness Summerskill (Lab.) and Lord Rea (Lib.)—yet all recommendations for political honours primarily to ensure that no payments to party or political funds are involved.

Personal service

The Sunday Times reported yesterday that although the committee had found the Wilson list satisfied this requirement, it had questioned three proposed life peerages for persons not known to have rendered personal or political service to the former Prime Minister of the Labour Party.

Sir Harold stated later through his private office: "The statement in today's Sunday

Times that names proposed for life peerages have been 'stalled' by Whitehall and by the Political Honours Scrutiny Committee is totally untrue, as are the series of supporting allegations in the report published as the main lead on the front page.

No queries

"I have had no queries whatsoever from the Political Honours Scrutiny Committee following their meeting and I have been informed that their certificate was issued in respect of all the recommendations which fall within their jurisdiction."

Statements appearing to follow the Sunday Times report in the Sunday Express and News of the World are similarly untrue.

A Prime Minister's resignation honours list is traditionally restricted to those who have personally served him during his period of office.

Sir Harold said in 1968 that he did not intend to recommend any further honours for political service only, but life peerages, which affect the balance of the political parties in the Lords, have continued to be regarded as political honours and submitted to the Scrutiny Committee.



The British Printing Corporation Limited

Overseas profits at record levels

Profits Trading profits before interest declined in 1975 by about £1m to £7m. This is mainly attributable to the downturn in UK demand. We regard these problems as temporary since they mask the real advance in the long-term development of the business. Interest charges increased against 1974 largely due to increased local borrowings in Japan. However, the Corporation had improved its overall liquidity situation by the end of the year by some £2m with an improvement in the UK of over £5.5m. The profit before tax and extraordinary items was £3.1m against £4.5m in 1974.

Dividends A final dividend of 2.1825p per share, the same rate as 1974, is recommended.

Overseas Overseas sales and profits have been at record levels in 1975. We are continuing to pursue an aggressive policy overseas and are increasing the export sales staff.



Chairman Your Board has proposed that Mr. Peter Robinson should succeed me as Chairman. He became Managing Director in 1970. I believe that under his leadership the activities of the Corporation have been widened and strengthened.

Mr Peter Robinson

Prospects The Corporation is in a strong position to benefit from an upturn in the UK economy and we expect continuing benefits from the growth in our overseas publishing investments.

CHARLES HARDIE, CHAIRMAN

Copies of the Report and Accounts are available from:
The Secretary, The British Printing Corporation Ltd., Prime House,
44 Great Queen Street, London WC2B 5AS. Tel: 01-470 3411.

General Accident ready to fund Equity Bank

THE General Accident Insurance group has been ready to play its role in providing funds to both Finance for Industry and the much-discussed equity investment vehicle—the Equity Bank—Mr. I. H. Stuart Black, chairman, says in his annual statement to shareholders published today, Michael Lafferty writes.

"As a general rule, I believe

that funds from the diverse facilities offered by banks and financial institutions are readily available to industry, as and when it has the necessary confidence that profitable investment can be made.

Nevertheless there may be certain deserving cases which cannot be satisfied from these sources," says Mr. Stuart.

COMPANY NOTICES

NESTLÉ ALIMENTANA S.A.

Cham and Vevey (Switzerland)

THE 109TH ORDINARY GENERAL MEETING OF SHAREHOLDERS is to be held at 3.00 p.m. on Thursday, 20th May 1976, at the "Palais de Beaulieu" LAUSANNE (SWITZERLAND).

AGENDA

1. Presentation of the Annual Report, of the Accounts for 1975 and of the Auditors' Report. Approval of the Annual Report and of the Accounts for 1975.
2. Statutory vote on release of the Board of Directors and of the Management.
3. Decision regarding the appropriation of the net profit.
4. Elections in accordance with the Articles of Association.

The owners of bearer shares may obtain their cards giving admission to the general meeting (with a proxy) at the Company's Transfer Office in Cham up to Monday 17th May 1976 at noon, at the latest. The cards will be delivered against the statement of a bank that the shares are deposited or upon deposit of the shares in the offices of the Company where they remain blocked until the day after the general meeting.

The Annual Report Nestlé 1975 (comprising the Annual Report of Nestlé Alimentana S.A., the Balance Sheet and the Profit and Loss Account with comments, the Auditors' Report and the proposals for the appropriation of profits) is available as from 5th May 1976, to the holders of bearer shares at the Registered Offices at Cham and Vevey, and at the offices of the Paying Agents of the Company.

The holders of registered shares whose names are entered in the Share Register will, within the next few days, receive at their last address communicated to the Company an envelope containing the Notice for the General Meeting, and a form comprising an application for obtaining a card giving admission to such meeting as well as a proxy. On the other hand, the aforesaid Report will be dispatched a few days later.

The shareholders are requested to address any correspondence concerning the General Meeting to the Transfer Office of the Company at Cham (Switzerland).

The Board of Directors.

Cham and Vevey,
3rd May, 1976.

AUSTRIAN 4%, GOLD RENTES			
AUSTRIAN 4 1/2% REDEMPTIBLE TREASURY NOTES 1974			
HUNGARIAN RENTES 4% GOLD 1881, 1888, 1893, 4%, 1910			
4 1/2%, 1915; 4 1/2% REDEMPTIBLE LOAN 1914			
HUNGARIAN 3% STATE GOLD (IRON GATES) LOAN 1895			
AUSTRO-HUNGARIAN CHARTERED STATE RAILWAYS (STEG) 3% LOAN			
The Council of Foreign Bondholders have been requested to announce that the Caisse Commune des Porteurs des Dettes Publiques autrichiennes et hongroises, Paris, is making FINAL partial payments of capital as from the 3rd May 1976 against Bonds accompanied by interest and the coupons listed of the above-mentioned loans at the following rates:			
Loan	Coupons	Payment	Per Bond/Note
Austrian 4% Gold Rentes	Nov. 17-20	Sfr. 36.76	Sfr. 200
Hungarian 3% State Gold (Iron Gates)	Nov. 9-20	Sfr. 4.15	Sfr. 504
Austro-Hungarian Chartered State Railways (STEG) 3% Loan	Nov. 4-5-6	Sfr. 19.27	Gold Frs. 500
Paying Agents: Council of Foreign Bondholders 9-12 Cheapside, E.C.2.			
Hungarian 4% Gold Rentes 1881, 1888 and 1893			
Hungarian 4% Rentes 1910	Nov. 9-20	Sfr. 2.89	Fls. 100
Hungarian 4 1/2% Rentes 1915	Nov. 9-20	Sfr. 4.61	220
Hungarian 4 1/2% Redeemable Loan 1914	Nov. 9-20	Sfr. 4.34	220
Paying Agents: M. M. Rothschild & Sons Limited, New Court, St. Swithin's Lane, E.C.4.			
Austrian 4 1/2% Redeemable Treasury Notes 1974			
	Nov. 17-20	Sfr. 32.35	Sfr. 210
Paying Agents: J. Henry Schroder Wagg & Co. Limited, 120 Cheapside, E.C.2.			

All these payments will be prescribed on the 3rd May 1976. Bonds, interest and coupons should be lodged for collection at the offices of the respective paying agents through the medium of an Authorised Depository between 10 a.m. and 2.0 p.m. and listed on special listing forms and left for examination.

Coupons bearing numbers lower than those listed above and not prescribed should be lodged for collection separately on the appropriate listing forms.

Presenting Authorised Depositories desiring to receive from M. M. Rothschild & Sons Limited or J. Henry Schroder Wagg & Co. Ltd. the listing certificate of the Swiss Franc payable will receive payment only at the official market rate of exchange.

To conform with the requirements of the United Kingdom Exchange Control Act, payments will be made only to the presenting Authorised Depositories and any foreign currency received by them must be dealt with under Bank of England Notice E.C.7 Paragraphs 40, 79, 80 or 81 as appropriate.

9-12 Cheapside (6th Floor), E.C.2. 3rd May, 1976.

Gas

AS IMPORTANT TO BRITAIN AS NORTH SEA OIL

The arrival of the first supplies of North Sea oil has attracted a lot of publicity. And rightly so, because it will eventually bring many benefits to Britain.

Meanwhile North Sea gas has been coming ashore for some eight years now—bringing its own benefits.

Most people know that natural gas is a clean, controllable, efficient fuel. Not everyone realises, however, the extent to which it has been good for the country as well as the customer.

It has made us far less dependent on imported oil and has already saved Britain thousands of millions of pounds on our balance of payments. What is more, the supplies of natural gas so far discovered will last Britain into the next century.

While North Sea oil will be of great benefit in the future, natural gas is *already* one of Britain's most precious assets. So please use it carefully—it's much too good to waste.

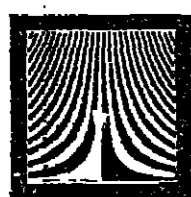
HOW YOU CAN SAVE GAS AND MONEY

- 1 Use your central heating time clock sensibly
- 2 Turn your thermostat down a degree or two
- 3 Turn off unnecessary radiators
- 4 Insulate your roof space and hot water system
- 5 Have your gas equipment properly maintained and serviced
- 6 Ask at your local showroom for further information about how to save gas—and save money



BRITISH GAS

5000 مائة الف



The Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

RESEARCH

Fillip for the quiet diesel

FULL COSTS of a research and development programme for the building of quieter, lighter and smaller Diesel engines for road transport and haulage vehicles are to be taken over by National Research Development Council. The programme, which may take two to three years to complete, is in progress at the Institute of Sound and Vibration Research attached to Southampton University. It could result in the establishment of design principles which will result in the production of more economical power units.

Stemming from work to reduce the size of Diesel engine systems, carried out at ISVR over the past three years, with the support of the Science Research Council, the newly sponsored programme should speed the introduction of ISVR ideas in industry.

It is already known that some manufacturers are interested. One of the reasons is that ISVR staff have demonstrated that the massive cooling system structure which surrounds cylinder and cylinder head with water can be substantially reduced, using a standard engine as a demonstration unit.

The team also developed techniques to insulate the combustion chamber internally and it is now proposed to build an engine with several cylinders with the cooling reduced to those areas where it is essential to keep the temperature just within working limits, using some of the above insulation techniques.

If the size of the water jacket on a full-scale engine can be considerably reduced, this gives

major scope to improve the structural design of the engine and reduce its noise emission and weight.

Another benefit likely to result is an improvement in thermal efficiency of the engine. ISVR, working with Diesel builders, is to evolve prototypes of two engines, to explore the effects of minimal cooling and some aspects of structural design of high speed engines, an area in which there is a need for a domestic product in certain power ranges.

Work is being carried out under the control of Prof. T. Friede, Dr. W. P. Mansfield and Mr. E. C. Grover.

Further information from NRDG at Kingsgate House, 66-74, Victoria Street, London SW1E 6SL (01-825 3400.)

HANDLING

Dust free loading spouts

FROM THE U.S. comes a range of retractable loading and filling spouts capable of handling dry, dusty materials at rates from a few pounds to 100 tons/minute and travelling from 1 to 100 feet.

Developed by the Midwest Division of Ron Pair Enterprises, Inc., St. Clair Shores, Michigan, the units are designed so that if fitted to a dust collector they provide dust-free loading, including evacuation of the dust and air displaced from the vessel being filled. Applications range from ore ships and rail wagons to filling carious with plastics.

Essential feature of the spouts is a venturi device which forces the material being handled to form a column inside a flexible collapsible tube without touching the tube walls. At the base of the tube the stream strikes a metal hopper and discharge spout. The spouts can be automatically controlled to remain a set distance above the delivered material.

Prices range from \$500 for the smallest unit to \$18,000 for the largest, which is 9 feet in diameter. The spouts, which are partially made in the U.K., are available from Colmar Engineering, Collingwood Road, Cardiff, CF1 5BU (0222 41331).

TRANSPORT

Refurbishes effluent tankers

ANY MAKE of vacuum effluent tanker can be stripped, renovated and up-dated under a scheme operated by Whale Tankers, Ravenshaw Lane, Solihull, West Midlands B91 3SU (021704 3181).

From receipt of the vehicle to completion, including repainting and signwriting, takes about 10 days, says the company.

Main aim of the scheme is to avoid scrapping three or more years' old tankers, simply because they may be doubtful about their safety and because the latest tankers are quicker and more efficient. The company claims it is able to remove any doubts on safety and up-date basically sound tankers to provide what is almost as good as a new unit for about a quarter of the new price.

Exhauster-compressor, pipe-work and valves are all replaced with consequent speeding of operating times. The shell, chassis, running gear and all fixtures and fittings are repaired, replaced and refinished as necessary, and the final job put through the same test procedure as new tankers.

DATA PROCESSING

More bids from Japan

NIPPON Electric (NEC) has put on sale two new office computer models in the NEAC System 100 series, which employ large-scale integration (LSI) circuitry, making the unit light and compact and lowering power consumption.

NEC says the new small computers use 16-bit LSI micro-processors with four-bit LSI memories to speed up and computerise office work.

NEC says it plans to market them soon in the U.S., Australia and Europe.

Smaller cartridge for data

A SCALED-DOWN version of the company's DC000A magnetic tape cartridge, the DC100A, has been introduced by 3M. Designed for use with the DCD-1 data cartridge drive, it can yield systems contained within a 3-inch cartridge. Average capacity, one cartridge is 100,000 eight-bit bytes, with an average transfer rate of 2,530 bytes/second. Tape speed remains at 30 inches/second. Claimed life is 5,000 passes. The associated mechanism has been started in 27 milliseconds, and stopped in 5.

COMPONENTS

Corrosion resistant valves

STAINLESS STEEL double-diaphragm control valves for handling gases or liquids at pressures up to 125 psi in applications where corrosion resistance is required have been introduced by Bifold Company, Leyland Mill, Wigan, WNL 3SA (0942 41253).

For line, flange and panel mounting, the valves are in full-flow port sizes of 1/2 to 1 inch (air flow capacity of the latter is 312 cu. feet/min. at 100 psi). All in the range are in manual or pilot operated types. Flameproof, solenoid-operated versions can be supplied.

Diaphragms are in nitrile rubber or Viton to suit the application. The double-diaphragm principle obviates the danger of metal-to-metal contact, and is stated to offer fast response and long service.

Integral take-off valves

FORGED STEEL take-off valves for direct attachment to a pressure vessel or large diameter pipe have been introduced by the Triangle Valve Company, hole sleeve, and secured by an end wing nut. Bits are available fixing to a vessel or pipe removes

Recording is in serial mode and the full width of the tape is used. The encoding technique is independent of tape speed, and control logic prevents the drive from accepting any commands that might harm the cartridge.

Applications are expected in desk-top calculators, point of sale terminals, microcomputers, and automated typing systems. More from 3M House, Wigmor Street, London, W1A 1ET (01-866 5522).

Service for users of micros

MICROCOMPUTER SYSTEMS division of Intel now offers design and manufacture of complete microcomputing systems for specific customer applications. Systems produced in this way are supplied with full documentation, test procedures, diagrams, random access memory (RAM) that uses a 4096-bit metal oxide semiconductor (MOS) storage device to provide an extremely high density array card of over 1.3M bits.

The memory systems division of Intel has been designing microcomputer systems since 1971 and has accumulated expertise. It has a big test department and every board produced is subjected to severe environmental testing under worst case conditions and is soak-tested before dispatch.

The new service is of value to those companies considering the design of a microcomputer-based system to be produced in fairly large volume. It allows the customer's engineers to concentrate on other aspects of the system while Intel produces a microcomputer guaranteed to meet the agreed specification.

Intel is at 4, Between Towns Road, Cowley, Oxford, OX4 3NE. (0883 31812).

Compact memory

CDC has unveiled what it calls the computer industry's first one-Megabyte OEM semiconductor memory contained in two cubic feet.

CDC 94550 high-performance memory is the second in a family of semiconductor memory modules developed by the firm for use in the OEM market for small computer systems and communications. It is a dynamic test procedures, diagrams, random access memory (RAM) that uses a 4096-bit metal oxide semiconductor (MOS) storage device to provide an extremely high density array card of over 1.3M bits.

The basic 64K x 20 bit module is used to expand the system to one Megabyte with a single timing and control card. The memory system has a 450-nanosecond cycle time and a 325-nanosecond access time and offers full read/write and partial write cycles. Low power

consumption of 140 watts per Megabyte permits air cooling. CDC, 22A, St. James's Square, London, S.W.1. (01-833 7244).

Newpackage for the System 32

PROGRAM resources for the IBM 32 have been expanded with the introduction of the "distributors management accounting system" by the General Systems Division of IBM.

Four application programs include invoicing, stock control, sales ledger and sales analysis, only the ledger program being available separately.

This brings to four the number of applications packages officially available from the manufacturer. Naturally, software and service groups can provide a growing number of extras. IBM, Wigmor Street, London W1H0AB. (01-885 6600).

SAFETY

Telemeters emergency outstations

INITIALLY designed for the protection of hospitals, old people's homes and similar buildings, a wired telemetry system that interrogates, and receives responses from 80 stations sequentially every second has been put on the market by Scurvale, Joseph Noble Road, Lillihall, Worthington, Cumbria CA14 4JR (0900 4666).

The digital address of each station is sent in turn, as the first seven bits of a 16-bit data word, the remaining bits being used to send individual commands as and when necessary.

Each station contains electronics enabling it to recognise its own moment to respond when it will tell central control either that its condition is normal or that a fire (or some other detectable event) has occurred. An appropriate display panel lights up on the control panel. At the same time the fire alarm bells are automatically operated in the zone in question, independently of the telemetry system.

There is a stacked module for each zone on the board, and each has a command button which can be programmed to alert up to seven support services when a fire is detected. The system, called Intrac, is expected to find other applications in large premises.

METALWORKING

Cuts pipes for rig building

PROFILING and bevelling both ends of a pipe without removing it from the chuck can be carried out on three machines developed by Wela BV, Rotterdam, Holland.

Opti-acceptance or plasma flame cutters can be fitted, and the required profile and weld 151, a water emulsifiable semi-synthetic cutting fluid, have been announced by the maker. More details from Wela International (U.K.), 5 St John's Place, Wistow, Huntingdon, Cambs. (0457 822868).

Improvements to Skycut 151, a water emulsifiable semi-synthetic cutting fluid, have been announced by the maker. More details from Wela International (U.K.), 5 St John's Place, Wistow, Huntingdon, Cambs. (0457 822868).

Mineral oil content has been reduced, and a broad spectrum biocide included, which is stated to give the fluid a machine life of up to six months, and to prevent corrosion of machines and components. The fluid is claimed not to foam even when there is high agitation. A pink dye has been added, the colour intensity of which reduces as the fluid reaches renewal point.

It is said to be of low toxicity and to be acceptable to local water authorities when dispersed into waterways.

Use involves placing a few cubic centimetres in a measuring canister connected electrically to the main unit. The canister refuses to reveal what happens in the canister, except to say that the mix is "energised" and the time is measured for it to reach a "new physical condition".

The time is read off from a counter and after reference to charts the water content is obtained. Price is under £250. More from Meter House, Fieldhouse Lane, Marlow, Bucks. (08284 72722).

Better cutting fluid

IMPROVEMENTS TO Skycut 151, a water emulsifiable semi-synthetic cutting fluid, have been announced by the maker. More details from Wela International (U.K.), 5 St John's Place, Wistow, Huntingdon, Cambs. (0457 822868).

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CONTRACTS AND TENDERS

ENERGIE & POWER

THE NEW BRUNSWICK ELECTRIC POWER COMMISSION

327 KING STREET
FREDERICTON, NEW BRUNSWICK
CANADA

Point Lepreau Generating Station
Mechanical-Electrical Installations

NOTICE OF PROPOSED TENDER CALL

It is the intention of The New Brunswick Electric Power Commission to call tenders on or about July 30, 1976, for Mechanical-Electrical Installations on their Point Lepreau Generating Station. This plant is a Candu-600 nuclear generating station located near the City of Saint John on the Bay of Fundy.

The works, which are divided into work packages, include the installation and putting into operation all the mechanical components, both thermal and nuclear, located in the reactor containment building; Phase I electrical installations which consists of station service power, cable trays and lighting throughout the plant; installation of control computers and plant communications systems; and the erection of interior structural steel within the reactor building. The equipment and materials to be installed will be supplied by the owner.

It is the intention that this work will be called on the basis of a combination of lump sums, unit prices and hourly rates.

It is anticipated that tenders will be received by the end of October 1976 with work to commence on site in January 1977 and continue over a period of approximately three years.

Prospective bidders are requested to make their intentions to bid known before May 15, 1976 and may request additional information from:

A. W. MacPhail
130 Carlton Street
FREDERICTON, New Brunswick
CANADA (Phone 368-4509/7)

HON. A. E. STAIRS
CHAIRMAN
THE NEW BRUNSWICK ELECTRIC POWER COMMISSION

Federative Republic of Brazil

FEDERAL GOVERNMENT—MINISTRY OF TRANSPORT

D.N.E.R.

NATIONAL HIGHWAY DEPARTMENT

INTERNATIONAL TENDER FOR THE PURCHASE OF HIGHWAY EQUIPMENT

NOTICE OF TENDER No. 28/76

THE NATIONAL HIGHWAY DEPARTMENT, an independent division of the Ministry of Transport of the Federal Government of the Federative Republic of Brazil, Avenida Presidente Vargas No. 822, Rio de Janeiro, Capital of the State of Rio de Janeiro (Brazil), for the information of prospective suppliers, hereby announces an international tender subject to Brazilian law for the purchase of the highway equipment hereinafter mentioned for the Highway Department of the State of Minas Gerais (Brazil) and for which domestic or foreign manufacturers or suppliers may bid, provided that foreign companies are located in other member countries of the International Reconstruction Development Bank or in Switzerland.

2. The Brazilian Government has concluded a loan with the International Reconstruction Development Bank, the product of which will be applied in partial payment of contracts arising from this tender.

3. Bids and other documents shall be handed in on the 25th June 1976 at the office of the Highway Department of the State of Minas Gerais at Avenida dos Andradas 1120, 11th floor, Belo Horizonte, capital of the State of Minas Gerais.

4. Interested parties may obtain a copy of the notice of Tender and specifications and other information at the following places:

a) In Brazil:
Departamento Nacional de Estradas de Rodagem
Grupo Executivo de Concorrências
Avenida Presidente Vargas, 534-4º pavimento.

b) Abroad:
Brazilian Diplomatic Representative Offices;

5. Contracts to be entered into by successful bidders shall be concluded with the Highway Department of Minas Gerais.

List of Equipment required:

LOT	EQUIPMENT	QUANTITY
01	4m tipper lorry	220
02	115 hp motor grader	35
03	2.2 t GYM Pickup truck	50
04	10 t fixed body lorry	15
05	6.5 t fixed body lorry	30
06	2.6 t fixed body lorry	15
07	Excavating tractor with front loader on 1.35m ³ tyres	8
08	5 to 8 t tandem rollers	7

For Adhemar Ribeiro da Silva
DIRECTOR GENERAL

REPUBLIC OF INDONESIA

MINISTRY OF PUBLIC WORKS AND ELECTRIC POWER

HIGHWAY BETTERMENT PROGRAMME

PREQUALIFICATION OF CONSTRUCTION CONTRACTORS

The Ministry of Public Works and Electric Power of the Republic of Indonesia gives notice that it has initiated a programme of highway and bridges construction totalling some 12,000 kilometres throughout Indonesia continuing over the next four to five years and building up a further similar programme of some 4,000 kilometres per annum.

Applications from contractors, including those previously prequalified for the first phase of this programme, either in their own name or as a Joint-Operation who wish to participate in the second phase of this programme involving approximately 625 kilometres of asphaltic pavement construction as well as bridge construction, will be received at the address listed below. Interested contractors must have home addresses in countries which are members of the World Bank group, or Switzerland, since it is anticipated that that agency will assist in the financing of the work.

International and Indonesian contractors are encouraged to form joint-venture or joint-operations and make maximum use of local suppliers in the interest of developing in-country construction capability of labour-intensive technology where applicable.

A contractor to prequalify must have identifiable senior project field supervision personnel with at least ten years' experience in modern road and bridge construction or, failing this, they must be in a Joint Operation, or Joint Venture, or have a management contract with a contractor who can name and supply such personnel.

Contractors who have formed joint-venture, joint-operation and/or management contracts with other contractors are required to submit a copy of their association agreement, which should include also a statement of their sharing of capital, together with the prequalification documents.

Contractors expressing intent to do so are required to mail a copy of the agreement when completed to the address listed hereunder.

The projects included in this phase of the programme are located in West Java, Central Java and Sumatra.

An early response from all interested contractors is requested in order that they may be prequalified in time for the imminent tender calls. Completed prequalification documents will be received not later than 15 June 1976.

Prequalification documents may be obtained from the Government of Indonesia at the following address:

DIRECTORATE GENERAL OF HIGHWAYS
MINISTRY OF PUBLIC WORKS & ELECTRIC POWER
JL. PATTIMURA 20 KEBAYORAN BARU
JAKARTA, INDONESIA

REPUBLIC OF GUINEA

"COMITE D'ETAT DE COOPERATION AVEC LES PAYS D'AMERIQUE ET LES ORGANISMES INTERNATIONAUX"

MINISTRY OF PUBLIC WORKS OF MINING AND GEOLOGY

INTERNATIONAL INVITATION TO BID

The Ministry of Public Works of Mining and Geology will issue shortly an invitation to bid for the procurement of material and equipment to be utilized in the reconstruction and the maintenance of approximately 2,500 km of earth and asphalt roads comprising the following lots:

Item 1: Earth moving equipment
Item 2: Rollers and compactors
Item 3: Vehicles (trucks and light vehicles)
Item 4: Mobile air compressors
Item 5: Concrete mixers, aggregate washing and screening plant
Item 6: Asphalt distributor
Item 7: Miscellaneous tooling and material.

The tenderers are free to bid for one or more items.

The Republic of Guinea has received a credit from the International Development Association (IDA) and it is intended that proceeds of this credit will be applied to payments under the contracts for which this invitation to bid is issued.

Payments by the International Development Association will be made only upon approval by the International Development Association of an application presented by the Republic of Guinea in accordance with the terms and conditions of the credit Agreement and will be subject in all respects to the terms and conditions of that Agreement.

The goods and services covered by the contracts are to come from member countries of the World Bank or from Switzerland.

Bidding documents may be consulted as from 17th May 1976, at the Ministry of Public Works of Mining and Geology at Conakry and at the Washington, Paris, Rome and Tokyo embassies of the Republic of Guinea.

The documents may be withdrawn after payment of U.S.\$20 or Syllis 400 at the above addresses and at the Consultants offices: Louis Berger, International Inc., 100 Halsted Street—EAST ORANGE—New Jersey (USA) or Tractelion, 31, rue de la Science—1040 BRUXELLES (Belgique).

INVITATION TO BID FOR THE EXECUTION AND OPERATION OF A GAS PLANT IN SYRIA ON TURN-KEY JOB BASIS

The Syrian Petroleum Company invites offers from prospective contractors for the execution and operation of a gas plant in Syria. The plant is to be located in the north eastern part of Syria.

The Project shall contain all the civil, mechanical, electrical, instrumentation and control communications and all other work necessary to fulfill the turn-key job conditions.

The Project consists also of gases gathering system to collect and transport associated gases from the oil fields to the gas plant and to liquefy gases to produce lean gases as gas-liquor fuel and gas-liquor as car fuel.

The Project shall contain also a unit to cover the gas sulfur from the sulfur recovery unit.

PLANNING APPLICATIONS

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MONDAY, MAY 3, 1976

A question of naked power

THE DECISION of the Selection Committee of the House of Commons to recommend that Parliamentary Committees processing controversial Bills should continue to have a Labour majority even though the Government has lost its overall majority has rightly provoked an uproar. It is a matter of very real importance whether Ministers do or do not have the ability to push through, in all their purity, such measures as the Aerospace and Shipbuilding Bill, the Dock Work Regulation Bill, the Education Bill and the Health Service Bill—all of which are now pending. The fate of the Finance Bill is even more critical.

The logic

To some extent the question boils down to a matter of naked power. Labour has a majority on the Selection Committee and it is hardly surprising either that this majority should see its responsibility in party terms or that the Government should back a decision which is so clearly to its own advantage. On the other hand it is now open to the Opposition parties in the House to band together and enforce the logic of the situation on the Government. If they muster all their forces they have a theoretical majority of two, and if the Government is defeated on a motion disowning the Selection Committee's ruling it will have no alternative but to bow to the wishes of the House.

This arithmetic does not, however, entirely dispose of the matter. The Opposition at present consists of six different parties and two independent Members and some debate upon the principles involved may well be required to bring them to the point of uniting. The arguments advanced on behalf of the Selection Committee's ruling are two. The first is that in the absence of any clear direction from the rules, it is unreasonable to lump all the Opposition parties together and

treat them as one block. To this argument the Prime Minister has added another, broader one—namely, that if the Government has managed to secure the principle of a Bill in second reading, it should be allowed the means of getting the implementing provisions enacted in Committee.

There is some substance in these propositions. The thought behind both of them is that under the British system the Duke of Wellington's dictum should be applied: "The Queen's business must be carried on." This means that we should avoid arrangements which tend to render the Executive powerless. The question is whether this system has not now broken down, and whether the very existence of so many minor parties is evidence that the electors in some sense wish it so.

Excessive

The Government's present predicament is very much on the borderline of this argument. The immediate cause of it—the defeat of Mr. John Stonehouse—can hardly be said to be evidence of any great movement of public opinion. Yet it is probably true that the broad logic behind the election of a Labour Government in October 1974 is regarded with increasing doubt in the country. The price in legislative terms that is being paid for the concord with the trade unions is more and more criticised as excessive. A Parliamentary situation which gave the Opposition power to reduce that price somewhat by blocking the more controversial provisions of the Government's programme would not be out of tune with the mood of the public. The elimination of the Government's majority on standing committees by the inclusion of some minor party members would have precisely this moderating effect without depriving the Executive of its necessary power to govern. It might even demonstrate to sceptics the vitality and adaptability of our much maligned constitution.

Everything to play for in Italy

THE ITALIAN general election which now seems likely to take place on June 20 are of an importance that goes way beyond Italy. They will be a crucial test of the conventional view of Italian politics—that the PCI has been steadily advancing to the point where it must soon draw level with, if not overtake, the Christian Democrats. The PCI's share of the vote rose from just under 19 per cent. in 1946 to 33.4 per cent. in the regional elections last year. That of the Christian Democrats fell from a peak of 48 per cent. in 1946 to 33.3 per cent. in the same regional elections; hence the view that the two lines on the graph are about to intersect each other, and hence also the PCI's call for the "historic compromise"—a grand coalition of Catholics and workers' parties.

Violence

The Italian campaign will also take place at a time of currency uncertainty and of some disarray in the European Community. The lira has already fallen dramatically in the course of this year and it could fall further in the next few weeks, bringing the possibility of a more general currency upheaval. Equally, the elections pose fundamental questions about the future of the Atlantic Alliance and East-West relationships. For Dr. Kissinger the entry of the Italian Communist Party (PCI) into government could signal the beginning of a U.S. withdrawal from Europe. Even for those who take a less apocalyptic view such an eventuality is a cause for grave concern. Yet the view from Moscow can be hardly less apprehensive. It may be assumed that, at least initially, the PCI would attempt to prove democratic credentials; it is in fact hard to see how such an individual approach to socialism could fail to have an unsettling effect on the Soviet empire in Eastern Europe.

Not least, there is the danger of political violence in Italy itself. There is an active fascist movement and the PCI's search for respectability has meant that there are also uncontrollable elements on the extreme Left. Violence during the campaign would certainly have some effect on the debate, and possibly on the outcome. Against such a background of

Socialists

It is also true that the Christian Democrats have done little to win new support in the past year or so, either by introducing new faces, thus shedding the image of corruption, or by ending their own divisions. (Sig. Moro has a last chance to bring in a new team when he announces his caretaker Cabinet to-day, but it would be wholly uncharacteristic of him to take it.) Yet it is one thing to vote for the PCI as a protest and another to do so in the knowledge that it might well become the largest party in Italy. The understandable reservations about the PCI's true colours could still rescue the Christian Democrats and should certainly help the smaller parties. Of these, the performance of the Socialists could be crucial. With 9.8 per cent. of the vote in the last general elections and 12 per cent. in the regional elections last year, the party could be in a position to form a new Centre-Left coalition which would fall short of the "historic compromise" enough to suggest there is still everything to play for.

Any wage deal with Mr. Healey approved by the TUC on Wednesday will live or die depending on numerous union conferences and particularly shop floor reactions.

High fences ahead on the pay policy stakes

By ROY ROGERS, Labour Correspondent

BY all accounts top level negotiations between the Government and TUC leaders are making real progress and should next Wednesday result in preliminary agreement on a further period of voluntary wage restraint to be referred to a special TUC Congress in mid-June. But that does not mean that the policy to follow the immensely successful £6 flat rate, expiring at the end of July, will be home and dry.

First, it will have to be sold to individual union conferences and to the special June Congress, and this is certain to involve a major propaganda campaign by senior trade union leaders orchestrated by a counter campaign by militants opposed to further restraint. Then it would have to withstand the constant strains of negotiations at shop-floor level.

This week the whole concept of wage restraint is likely to receive a battering at delegate conferences of the Civil and Public Services Association, the technical and supervisory section (TASS) of the Amalgamated Union of Engineering Workers and the Association of Scientific, Technical and Managerial Staffs—all of which came out against the £6 policy last year.

Other unions which appear to be shaping up against the new policy, whatever form it takes, are the Union of Construction Allied Trades and Technicians, and the National and Local Government Officers' Association which hold their conferences in early June. Nalco, like the National Union of Public Employees which is another potential opponent of the emerging policy, has been angered by the Government's proposed expenditure cuts.

Return to free bargaining

But by far the biggest hurdles will be the full conference of the Amalgamated Union of Engineering Workers in the middle of this month and the July meeting of the National Union of Mineworkers. Militants in both unions will seek to align their conferences against the principle of wage restraint by calling for a return to free, collective bargaining.

If they are successful in either or both the AUEW or the NUM, this is still unlikely to lead to the policy's defeat at the special TUC Congress. But if either decided to mount a determined challenge to the new policy in their own pay negotiations and were successful they could undermine the policy to such an extent that other groups of workers would seek to follow suit.

At this early stage it appears that even if Nalco—the fourth largest TUC union—does go

against continued wage restraint it would still need AUEW moderates, who currently hold a slender majority in members between them on the National Committee, reverse their support for the Government before there is a further period of pay restraint possibility of the June TUC Congress throwing out what proposals are put before it.

The attitudes adopted by the AUEW and the miners after a successful passage of the package through Congress will be crucial because each has the power, if it so chooses, to wreck the entire policy.

Now leaders among the Militant leaders of the Yorkshire and Scottish miners have agreed to bury their differences so as to mount a combined onslaught on the next policy through demand for pay increases of up to £33 a week to give coal face workers a basic wage of £100.

Moderates on the NUM will have their work cut out to repeat last year's performance when they manoeuvred conference delegates into setting the £100 figure as a longer term target rather than an immediate claim.

will depend on how the TUC sells it.

The TUC General Council has to decide whether to throw resolutions from the floor of the Congress or try to restrict the agenda to consideration of the Council's recommendation. This second approach backed at a special Congress in 1973 when the Council's report was thrown out, and subsequent hastily prepared resolutions resulted in a national day of strikes and demonstrations against the Tory Government's prices and incomes policy.

KEY EVENTS BEFORE THE NEXT STAGE OF WAGES POLICY

*This week
*May 8-10 Civil and Public Services Association conference. Association of Scientific, Technical and Managerial Staffs conference.
May 17-21 AUEW (engineering section) National Committee meets.
*May 24-28 AUEW national conference (all sections).
*May 31-June 4 Union of Construction, Allied Trades and Technicians conference.
June 6-10 General and Municipal Workers Union conference.
June 7-12 TGMU executive meeting (No conference this year).
June 7 National Union of Mineworkers executive meeting.
June 8-11 National and Local Government Officers Association conference.
June 16-17 SPECIAL TUC CONGRESS.
June 18-19 NUM conference.
July 5-8 NEW POLICY DUE TO COME INTO OPERATION.
August 1
*Unions voted against £6 policy at last September's TUC.

MAIN GROUPS STILL TO SETTLE UNDER THE £6 POLICY

40,000 Merchant Navy officers.
170,000 clearing banks' staff.
500,000 local government and white collar workers.
50,000 gas industry white collar workers.
45,000 manual workers.
40,000 Merchant Navy seamen.

NEXT NEGOTIATING ORDER

1.25m. engineering workers—may seek a new national agreement
9,000 Leyland Lancashire truck and bus workers (September pay date).
19,000 BBC monthly paid staff (October pay date).
1m. local government manual workers (November pay date).
42,000 water supply manual workers (November pay date).
220,000 hospital ancillary workers (December pay date).
200,000 postal workers (January pay date).
300,000 agricultural workers (January pay date).
240,000 miners (March pay date).
105,000 power supply workers (March pay date).

In the case of the NUM its annual wage negotiations are not due until early next year.

Even if the miners decided to mount a determined challenge to the policy this need not affect the start of the autumn wage round. But for engineering workers, who bargain on a two tier system, their national negotiations—which set minimum rates and conditions—could be opened soon after August 1, the starting line for the new pay policy. Plant level agreements, which set earnings levels, take place at different times throughout the year.

At last September's TUC Congress, the AUEW was one of the main opponents of the £6 policy although in subsequent negotiations, it complied with it. A special AUEW National Committee last December decided belatedly to fall into line with TUC policy. In recent weeks, however, a rash of unofficial disputes involving engineering workers seeking to break the policy has hit British Leyland, Ford, Rolls-Royce and other engineering plants.

This rank and file revolt against the policy, which was eventually damped down by the union's executive, began in the Midlands, the power-base of AUEW moderates who originally championed the £6 policy. This shows how deep runs the feeling of the engineers' rank and file.

But NUM moderates, and indeed the Government, will be heartened by the return of Mr. Lawrence Daly, the NUM General Secretary, after several months off recovering from a very serious car accident last October. It was Mr. Daly who finally managed to put down the NUM militants at last year's NUM conference and, judging from his first speech since he returned to work, he is set to do the same again.

Last week Mr. Daly, who is also a member of the TUC Economic Committee, warned miners against isolating themselves from the rest of the trade union movement over pay. What mattered, he told Midlands NUM delegates, was the value of pound notes in the miners' pockets and he supported the TUC line on negotiations for a further period of wage restraint.

It is looking increasingly likely that NUM moderates may have to resort to a pit-head ballot to win rank and file acceptance for another year of pay restraint. This formula, which proved successful last year, may be repeated as the chances of getting endorsement of the policy at the NUM conference look slim indeed.

Delegates to the special June TUC congress will be asked to vote on a package which the TUC leaders hope will include sweenteners such as moves to cut unemployment, plus some import restrictions and early pension improvements: and much

The final package is likely to take the form of a combination of flat rate and percentage with a minimum increase to help the lower paid and a maximum cash increase—perhaps with some if not all of the £1bn. tax concessions offered by Mr. Healey in his recent Budget.

At the time of the Budget, Mr. Healey stressed that the tax concessions would be conditional upon the TUC accepting a 3 per cent. pay norm when the present £6 a week flat rate policy expires and that any improvement on the 3 per cent. figure could only be at the expense of the tax concessions.

But subsequent speeches by both Mr. Healey and the Prime Minister have indicated that they might be prepared to be a little more flexible if the TUC felt unable to get its members to abide by such limitation.

While declaring themselves in support of the Government's aim of halving the present inflation rate, the TUC has argued this can still be achieved by setting a limit of around 3 per cent. and pressing ahead with the offered tax relief.

Both sides will be anxious to ensure that the voluntary policy is so constructed as to make it as watertight as possible. No loopholes must be left for groups of workers to exploit. It seems unlikely, however, that they will agree to the setting up of any statutory Government.



Mr. Jack Jones, the Government's TUC guru?

verting machinery for agreement. It looks as if the Department of Employment will once again be saddled with the task of policing settlement. This is certain to prove more difficult than for the policy which, by virtue of simplicity, was comparatively easy for the TUC and the to monitor between them.

Unofficial action

But even if Mr. Jack Jones, General Secretary of the TUC, and the man on whom Government is mainly relying to persuade the TUC is successful in winning a agreement along the line flexible pay negotiations, a rigid ceiling, there is a certainty of peaceful settlements during the year.

Long-standing, no between craft and semi or unskilled workers. Jealously-guarded pay differentials has been exacerbated recent pay policies and a flat rate limit in particular the next round of pay negotiations will be even more difficult to achieve, but this can only be if unskilled grades accept increases.

This could lead to a breakdown, say, members craft-based AUEW and production worker-orient Transport Workers. It is a recent outbreak of an action by craftsmen at Leyland, Rolls-Royce and plants which finally saw Jones away from his adherence to flat rate income.

It is on the cards, if AUEW conference this will come out in favour further wage restraint pledge itself to seek in an entirely a percentage based.

As for the miners, the sign of productivity deals the next stage of the could prove crucial. Movement to draw upon a incentive bonus scheme replace one which failed last year. If this is made sufficiently attractive may just provide the impetus for NUM approval of new policy although militants plan to fight last to tie the union to a week demand. If such they would put the union potentially disastrous course with the policy a Government.

MEN AND MATTERS

Allied, Bass: the rumbles

There are distinct rumblings from the direction of the Allied Breweries group which are beginning to look to some brewing industry observers like another flare-up on the lines of the tussles which caused Boardroom splits in the late 1960s. If Allied has its difficulties at the top, there are suggestions that all is not well either at one of the country's other major brewers, Bass Charrington.

But first Allied. The chairmanship changed last September when the youngish (45) Keith Shawcross took over. He originally went into the family business, which built its prosperity on Bahyham, at the age of 17. His reputation was made not just through involvement with the famous bubbly drink but because of his work on developing Harveys of Bristol, the sherry concern acquired in 1965.

After Allied took over the Showers group in 1968, there were significant, if largely under-publicised, skirmishes involving the Showers family, with its large shareholding in Allied, and some directors from the old brewing businesses.

Possibly symptomatic of the current Allied situation is the time it took to name a new chief executive for the wine and spirits division, called Showers-Vine Products and Whiteleys. Keith Shawcross had gone to that job from the international side in 1971. It is only in the last few days that the announcement has come of the appointment of Glyn Davies to run the division, where Francis Showers, senior member of the clan, is chairman. Davies is known in the trade as an urbane diplomat, very much a person acceptable in the Boardroom.



"When you're selling it to America, make certain they don't mistake it for a current affairs programme."

Hamburg's Klose in town

The West Germans, one gathers, hardly put a foot wrong financially. But they can subsidise their own opera company: the city pays almost £20 towards the cost of every seat at each performance. On May 11, the company will give a special performance of Telemann's chamber opera Pimpinone at London's Commonwealth Institute, a rather elegant 18th century touch for the visit of Britain of the man ultimately responsible for the subsidy, Hans-Ulrich Klose.

He is Mayor of Hamburg, the largest, wealthiest and most anglophile of Germany's cities. Only 37, Klose is the well-dressed lean sort who looks like an archetypal young industrial executive on the way to the top. His swift rise to become what is properly titled the president of the Free and Hanseatic City of Hamburg began in the city in 1957 when he arrived at the university as a second-year law student.

a scientific conference in Paris after participating in a similar meeting in London. However, while the Queen invited him to lunch, the best friend Giscard d'Estaing had to offer was a short audience. According to Israeli officials, a foreign President has the right to expect a full diplomatic reception such as a lunch in his honour even when the visit is private.

The French, who consider themselves both the inventors and the most subtle exponents of diplomatic protocol, think they have neatly turned the President by pointing out that Queen Elizabeth has been on private visits to France without expecting to be received by the French President.

Looks gloomy

Few businesses are liable to turn up with a more inappropriate name than an Australian one called Future Development Corporation. It has just announced the appointment of receivers.

Observer

Prime Species

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FINANCIAL TIMES SURVEY

Monday, May 3 1976

WORLD BANKING

PART TWO: PART ONE APPEARED LAST MONDAY

During recent weeks the pound has suffered from worldwide bouts of nervousness which have effectively devalued it against other major currencies. This fall is bound to be reflected in higher prices at home — though at the same time it increases the competitiveness of Britain's exports.

Some relief for the pound

By Michael Blander

THE UNDERLYING dilemma of the British authorities in relation to the value of sterling was outlined by Mr. Denis Healey in his Budget speech before the latest round of pressure on the pound. "We have seen sterling depreciate in recent weeks," he said, "as the inevitable response to the fact that our rate of inflation has been above that of our competitors. But, he went on, "depreciation of this nature is no answer to our problems. It increases the cost of living and thereby in itself generates new inflationary pressures."

out reasonably smoothly in order to maintain the relative competitiveness of British exports. The Government's economic strategy is relying on a considerable boom in export business as the main impetus for economic recovery in the next year or so, with the Budget statement foreseeing a 8 per cent increase in this source of demand.

Recent events, however, have also underlined the difficulties related to such a policy. It is very difficult, if not impossible, to achieve this kind of exchange rate adjustment smoothly; it is hard, when the markets are nervous about the state of the U.K. economy, to control the extent of the fall in the pound at any one time; and a rapid decline in the value of sterling itself has repercussions on the domestic economy which can hinder the achievement of domestic objectives.

The problems of handling the markets have been clearly illustrated by the two recent bouts of nervousness about sterling, in early March and again last month. The result of these two periods of pressure has been that the pound has been effectively devalued on the weighted average against other major currencies—the figure which is regarded as the most significant measure of the U.K.'s relative position—by 10 per cent since the beginning of March and by nearly 20 per cent over the past year.

The handling of the March pressures came in for considerable criticism from abroad, particularly from France, which was inclined to blame the

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U.K.'s policies for causing a renewed general upset in exchange markets which led in turn to the pressures on the European snake and the French withdrawal from the joint floating arrangements. On the face of it, indeed, it is paradoxical that the Bank of England should have had to spend upwards of \$1bn. out of U.K. reserves in defence of the pound in order to end up with a reduction in its value of around 5 per cent, which in itself was not entirely unacceptable to the U.K. authorities.

The first market reaction came as a result of sales of sterling by the Bank on a morning when there was considerable commercial demand for the pound and the authorities were concerned to prevent a marked rise in its rate. This contributed to the view that the U.K. was trying deliberately to

engineer a reduction in the rate, a view which gained force when on the Friday the Bank allowed its minimum lending rate to drop again—for the tenth time—and the pound dropped below the psychologically important \$2 level and there appeared to be a reluctance on the part of the U.K. to intervene on any scale to calm the markets.

Over this period, also, the U.K. was being haunted by the spirit of Rambouillet—the undertaking to take action to avoid excessive movements in exchange rates and the turmoil which can result from sharp short-term changes. It was partly for this reason, no doubt, that the Bank eventually undertook substantial intervention to smooth the change and was not unwilling at the time to let it

be known how much it was committing.

The recent fall has been of a different character, with the U.K. authorities, this time making it clear that they regarded the pressure on sterling as unjustified. The markets have remained very nervous, both about the immediate intentions of the U.K. authorities and about the general state of the British economy.

But the violence of the reaction seemed to have taken even the banks themselves by surprise. One specific source of pressure on the pound may have been some switching by OPEC holders of the currency; but the major reason identified was the concern aroused by the trades union reaction to the Chancellor's proposals for the next stage of the pay policy.

As well as letting it be known generally that it regarded the fall as too large, the Government has taken specific—and, it is hoped, temporary—action to stem the pressure. This included the move by the Bank of England to push up the minimum lending rate to 10½ per cent. The rise of 1½ per cent was half a point more than had been originally indicated by the authorities when they moved into the market, as it had become clear that a good section of the market felt that a bigger increase was necessary to carry conviction. The move was followed by the success of Mr. Healey in winning support from EEC Finance Ministers at the Luxembourg meeting for the view that the decline in sterling was not justified by the U.K.'s economic performance.

The interest rate move, it is hoped, should not in the short term have too significant an effect on the domestic economy.

But the events have again underlined the susceptibility of U.K. policies to external influences. The situation provides much of the background to the emphasis being placed in economic policy on the need to continue reducing the rate of inflation and on improving the balance of payments. This year, the Budget forecasts indicated, the U.K. is still expected to run a balance of payments deficit of some £1.5bn. to £2bn., and though it is not expected to be difficult to finance this the stress on the export content of economic recovery over the

next year underlines the importance of external influences.

Thus, of course, is by no means the first time that external pressures have made a major impact on internal policies in a year when sterling has been basically weak. In July last year, particularly, the Bank had to engineer a one point increase in MLR in order to maintain the relative margin of U.K. interest rates compared with New York and help protect sterling, and again in October a further 1 per cent. rise was introduced (though the motives for this also included some worries at the time about the domestic situation). The need to maintain the relative attractiveness of sterling as an outlet for funds has been highlighted by the changing attitudes of some overseas holders including the oil surplus countries.

Switched

The news that Nigeria, one of the traditional sterling-holders, had diversified a significant part of its holdings, played a part in the uncertainty in the markets in early March. Other countries, including Saudi Arabia and Kuwait, have switched out of sterling into dollars; and after changes last year, these two now receive no oil revenues in sterling. The reduced disposition of external holders to keep funds in sterling was illustrated by the flows of oil surplus funds last year.

Bank of England estimates

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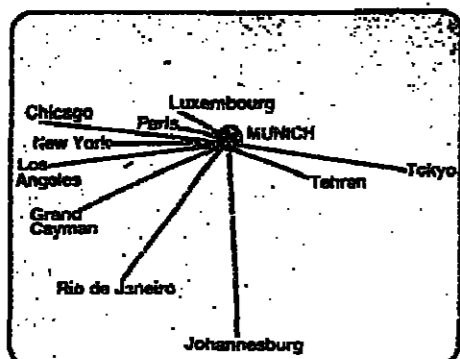
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Capital Resources	1,325	1,104
Consolidated Net Profit	80	63

BV	1975	1974
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*) Dividend per DM 50 preference share DM 11.50

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WORLD BANKING XXII

PROJECT FINANCE

Weighing the risks

"There is one important axiom in project finance. This is that not all projects are financially viable, and not all viable projects can be financed." Carlos Canal, executive vice-president, Bankers Trust Co.

A FASCINATING two pages of Citibank's latest annual report are devoted to explaining the bank's international lending policy. Since it earns considerably more money from its international operations than any other major bank (70 per cent of total profits) and since its international loan loss provisions are roughly twice as small as its domestic provisions (which are not excessive in themselves), the bank can speak with some authority.

Citibank arranges much of its international lending through Citicorp International Bank (CIBL) and Asia Pacific Capital Corp. (APCO). In 1975 it participated in \$8.8bn. of syndicated loans, of which \$4.2bn. went to developing countries. The interesting point is that over 60 per cent of Citibank's lending to LDCs was for "specific purposes": what many would loosely describe as project financings. This is the first time any major international bank has broken down the proportion of "specific purpose" credits in its overall loan portfolio, and what is surprising is its relative importance.

There are a number of reasons behind the recent spectacular growth in so-called "project" lending. Rapid inflation has led to spiralling costs and the size of many of the projects now on the drawing board is often beyond the capacity of a single government entity or international institution to finance. In addition, banks have become increasingly risk-conscious over the last two years. Whereas five years ago many would lend on the strength of a "name" there is a growing tendency nowadays to investigate lending decisions more closely.

Specific

Euromarket banks are averse to making balance of payment loans. They much prefer to lend a country money for a specific project rather than prop up its ailing balance of payments. As one Citibank executive puts it—"we don't lend money to countries which want to use it to build a monument to their president."

A casual glance at many of the projects now in the pipeline highlights the vast sums of money which will have to be raised over the next few decades. Bechtel Corporation has estimated that the energy industries of the non-Communist world will invest \$2,000bn. between 1971 and 1985. Bankers Trust of New York predicts that the U.S. energy industries alone will spend \$790bn. between now and 1990, of which \$365bn. will have to be raised from the capital markets (equivalent to two syndicated loans of \$1bn. apiece a month).

A recent study by Frost and Sullivan reckons that Europe will spend \$80bn. per annum over the next decade on developing its indigenous energy resources. This is the equivalent of 2.5 per cent of Europe's GNP, and compares unfavourably with the 1.5 per cent. average over the 1955-1970 period. Some \$180bn. will be spent on new electricity generating plants (including \$120bn. on nuclear power).

Since 60 per cent of the world's undiscovered oil reserves are believed to lie in the Communist bloc and over 50 per cent of the unproved coal reserves lie under the USSR, the demand for funds from these regions is bound to increase in the years ahead. Whether Western finance will be forthcoming is another matter.

Already, however, there are signs of increasing co-operation between East and West. Japan lent the USSR \$100m. last year to begin financing the extraction of natural gas from the huge Yakutsk fields in Siberia. Exports at a rate of 14m. tons per annum to Japan will begin in the early 1980s. American participation in the project, which could cost up to \$5bn., is also planned. Elsewhere, China has hinted that it might export LNG from its rich Szechwan gas reserves to Japan, which is desperately short of indigenous energy resources.

At the same time demand for project finance from more traditional sources continues. Ship financing is a classic example of an industry which relies heavily on project finance. Despite the industry's problems the world order book for ships amounts to 164m. tonnes and is worth around \$50bn. The financial

demands of the world mining industry, while nowhere near as large as those in the energy sector, continue to grow. An aluminium mine/smelter complex at Vila do Conde in Brazil, for example, will come on stream in 1985 and cost \$2.5bn. Numerous other projects of a similar size are planned.

Such projects, while technologically feasible, present a tremendous financial challenge to the banking community. How can project finance help? It is normally more expensive than traditional bank borrowing and requires the borrower to reveal considerable confidential detail to its bankers, something many major corporations are loath to do. It used to be argued that the big attraction of project finance was that a company could raise money "off-balance sheet" without damaging its borrowing ratios (especially important in the case of US companies since the ratios determine their domestic bond ratings).

However, the advantages of "off-balance sheet" financing are now regarded as largely illusory since the capitalisation of "off-balance sheet" commitments is now standard practice for U.S. companies. Under what circumstances then, does a borrower raise funds on a project basis?

It tends to be where the project is large relative to the scale of operations of any one of the participants. Often the project has to be large to reap economies of scale. As a result, however, the management and financial responsibilities posed mean that no one company can shoulder all the risks. If it could it would be much cheaper and far less bother to raise finance against its general corporate credit.

Many of the projects have a limited life and often have a low "alternative value." This is an important difference for bankers, who traditionally lay heavy emphasis on the underlying asset value. If a company defaults on an ordinary bank loan the bank can normally realise its security (freehold property, for instance) and recoup its money. In a project financing, however, the underlying asset often has little resale value as with a North Sea pipeline and as a result the bank has to make much more sure that the project can pay back the loan from its own cash flow.

No two bankers seem able to agree on what they mean by project finance. It covers a broad range of financing techniques from simple export credit guarantees to sophisticated production payments and "take

or pay" contracts. Indeed the to ship sufficient oil, or over, through the project's regular cash flow to pay a loan. Failure to do so will involve payment. Natura

Such as Texaco is a much attractive proposition th written by a major oil com the State oil company politically unstable devel

The crucial factor in success of any project fin is to remove the risks in either by proving that the almost non-existent (by bu generous safety margins the market and operating sections) or by having accepted by a third party. Later course is followed considerable time and effort be taken in assessing "quality" of the third guarantees. It is in this vague and nebulous are the real skill in project f

Differ

Consequently, once a bank sets to work structuring a project financing its overriding aim is to reduce the risk element in the project. This is where the fun starts since bankers' assessments of what risks are acceptable and what are not, differ more than might be expected.

The first risk in any project is the resource risk. The source of supply (oil reserves, ore, etc.) may be insufficient to meet the project's requirements during its lifetime. Generally, banks require an independent assessment of the quality and size of reserves in mining and oil projects. Provided these are forthcoming banks are willing to accept this risk without calling for further guarantees.

The second major category of risk involved in any project is the technological one. This involves ensuring that the project is completed and any cost overruns are paid for by the project sponsors. Normally a completion and performance guarantee is required by the bank. This is especially important in projects involving untried technology.

The third major risk is the market risk. Even if a project is operationally perfect, the market price of the end-product might fall dramatically (especially important in commodity-based projects). The banks guard themselves against this eventually by normally arranging long-term sales contracts at fixed prices or "take or pay" contracts (common in refinery and pipeline financing).

Under the latter technique the project owners are obliged

to ship sufficient oil, or over, through the project's regular cash flow to pay a loan. Failure to do so will involve payment. Natura

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A recent study of 17 pr in the April 1975 issue of *Journal of Commercial Lending*, showed that 12 projects studied suffered cost overrun problems ranged from 5 to 390 per cent of original cost; 10 projects experienced completion delays did not generate the cash originally projected; or into marketing pre another suffered from p interference, another 2 reserve miscalculation another just did not. According to the author, 1 Castle, 9 of the 17 p analysed ran into "trouble" (2 ended in bankruptcy and 6 others did generate enough cash during some period of financing to cover payment principal).

Despite this dismal p in only one of the 17 pr did the lenders take a loss then only after the co went bankrupt. The banks well despite the sta because they were able to many, if not all, the others. If the risks are n ing to be accepted by a party the bank has to a carefully every potential a weakness.

William

EUROMARKETS

Divided views

AT THIS moment in time, any discussion of future trends in the Euromarkets tends to polarise international bankers into two groups.

According to one view, the economic upturn in the developed countries (particularly the U.S.) will push up interest rates and cut back commercial banks' international lending capacity, thus leading to a fall in activity both in the medium-term lending and bond issuing sectors of the market. According to the other, the limitations on bank lending capacity set by capital adequacy requirements, the speed and the extent of the upturn together with the calls which are likely to be made on banks by companies have been exaggerated.

Depending on which view turns out to be correct, 1976 may or may not turn out to be a cyclical turning point for the Euromarkets. The bigger question facing borrowers and lenders alike is the extent to which the importance of these markets is declining in the long-term.

There is plenty of evidence which can be used to show that, with the exception of the period early in 1974 when the Euromarket played a starring role in the recycling operation, the markets are providing as much money as ever. The volume of new Eurobond issues floated in January this year, for example, had not been equalled in any previous single month in the Eurobond market's history: when the European Economic Community wanted to raise \$1.3bn. to help finance

Italy and Ireland early this year, it was to the Euromarkets that it turned; and new medium-term lending is running at consistently high levels.

Significance

And yet, there is also a considerable body of evidence which points the other way. The New York bond market has become much more important internationally in recent months, after a two-year period when it seemed that the lifting of the Interest Equalisation Tax and the removal of the other restrictions on capital exports was going to make no difference to the attitude of U.S. investors to foreign securities. Of particular significance is the fact that the European Coal and Steel Community is successfully floating a \$75m. twenty-year bond issue in the New York market, an issue which was increased in size from \$50m: foreign borrowers have hitherto been restricted to the five-to-seven year range when tapping this market.

Euromarket's rate of growth has slowed right down. And, although commercial banks' medium-term lending remained at a relatively high level last year — a total of over \$21bn. worth of new loans were arranged — there has been a definite slow-down this year.

Other indicators include the fact that control of Euromarket lending activities is being more closely centralised at banks' third was sold on the open

head offices now than 1 it was to the U.S. at the past, while in the U.S. at there have been signs that the regulatory auth themselves may extend control over banks' in tional operations.

The importance of this of analysis is not confined departments in interna banks which are responsible for forecasting and administering expansion or contraction banks' foreign operations also has considerable s after a two-year period when cance for borrowers try plan their future financing

The indications for borro are that, irrespective of cy swings, banks are growing more selective in the they will provide intern ally. In particular the evi of the past three months is traditional borrowers are to have a much tougher raising funds international future.

The contrast between th perience of traditional and tively new borrowers in 2 months has been stark. is one example of a co which, having relied on Euromarket for several b dollars of new loans ann is having to cut back its e tations.

The \$300m. loan for the of Sao Paulo which was fi floated on the international merical banking market this year was placed only considerable difficulty. It been pre-underwritten by lending activities is being more group of banks and less th third was sold on the open

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THE DOLLAR

Recovering fast

IF THE U.S. dollar rides on the on strike against the major tyre back of the domestic economy, companies and the car workers then it should be in for a good year. All the evidence suggests that the dollar will be in a good position to recover from the world wide not felt to be on the cards but recession quicker than almost all there is plenty of food for the major industrial countries thought in the probable course tries but also that it will retain of the settlements.

The unemployment rate also showed a rate of decline in the first quarter—from 8.2 per cent. to 7.5 per cent.—that may not be maintained for the full 12 months. It matched later in the year, even showed real growth running at an annual rate of 7.5 per cent. well in excess of what is still the official Administration forecast of 6.2 per cent. It is probable that the Government will shade upwards its growth forecasts sometime in the next two to three months, perhaps to the region of 8.5 per cent. or a little higher, and there is every reason to suppose that this will be achieved.

However, there were other aspects of the first quarter performance that may be somewhat illusory. The inflation rate, for example, turned out at an annual rate of 3.7 per cent., according to the GNP deflator, and 2.9 per cent., as measured by the Consumer Price Index. But the consensus view, inside and outside the Administration, is that the underlying rate of inflation is still at about 6 per cent. per annum.

Coloured

So far this year a combination of soft fuel and food prices and low interest rates have coloured the inflationary picture. But petroleum prices—wholesale and retail—have already begun inching up, while the cost of the farm products is expected to firm up later in the summer. Other industrial commodities—copper, steel, aluminium, for example—some time ago resumed an upward path. Moreover, there is little cause for optimism that the remorseless increase in the price of services—up 10 per cent. at an annual rate in the first three months—will abate substantially.

Wage settlements, too, will be a critical factor. In the first quarter, the trend was down compared with last year, with first year contract awards averaging 9.5 per cent. against 11.4 per cent. in the corresponding period last year. But since these machine tool order figures, for example, (that the process has already started) but will be annuised, which must have sufficient in ensure that expansion bearing on other major union negotiations later in the year, of which there are several. The rubber workers have been dealt

assured of election. Some public opinion polls have put him in a close race with the two strongest Democrats, Mr. Jimmy Carter and Senator Hubert Humphrey. But, stripping away the political rhetoric to which both parties are liable, it is significant this year that the Democratic-controlled Congress has by and large not sought to destroy the fiscal restraint that the President has imposed.

Austerity

A mood of some austerity (perhaps better described as budgetary consciousness) seems to have settled on this country. Congress, for example, has added little in real terms to Mr. Ford's extremely austere budgetary proposals of the start of the year. Since the President clearly understated spending, the addition by Congress of an extra \$16bn.-18bn. to outlays is insignificant. The political war of words between the two sides may not die down but the suspicion is that the battle over dollars has already been effectively decided.

In external terms, the first quarter of the year reflected America's resurgent economic strength by producing a \$864m. trade deficit, which, projected annually, works out at nearly \$3.5bn. This stands in stark contrast to the \$11bn. trade surplus that the recession-ridden U.S. racked up last year.

The assumption is, however, that the first quarter probably exaggerated the gulf between the American economy and its principal trading partners. As the rest of the world catches up, American exports, which rose by a puny 0.2 per cent. in the first quarter in comparison with last year's rate, will pick up, especially when farm prices start to rise.

The consensus view, however, has shifted to the extent that whereas at the start of the year it was anticipated that the U.S. might enjoy a small trade surplus this year or be in rough balance, current projections vary between possible equilibrium, and a deficit of modest proportions.

This may be offset by an improved balance on invisibles, partly as a result of increased military sales abroad (many of which are not included in the merchandise trade returns) and partly as a result of larger net investment income from abroad. The end result is that the current account—in surplus to the tune of nearly \$12bn. last year, on the strength of the trade sur-

plus—will probably end up in the black in 1976, but by a much smaller amount, perhaps of \$1-2bn.

In recent weeks, with the dollar steady and little exchange rate intervention, capital flows have been more or less in balance. Morgan Guaranty, the bible for such analysis, reckons that the very large amounts of money raised in the U.S. bond market by foreign borrowers (particularly Canadians) have been offset by heavy net foreign purchases of U.S. equities (there is plenty of evidence to suggest that Wall Street's bullish tendencies have been prodded on by foreigners).

American interest rates have been relatively low in the last half year. The latest statistics on the monetary policy practised by the Federal Reserve show that liberality was positively rampant—and uncharacteristic—in March and April. It is now expected that the Fed, whose chairman, Dr. Arthur Burns, has said that the money supply target ranges that have been in effect as the American economy recovered from recession were too high for an economy in expansion, will tighten credit soon. Interest rates, in the short term, will rise.

It is not thought in Washington that the ability of business to expand will be affected by such a development. The Government is more concerned that too generous a monetary policy will merely ignite the fires of inflation again before they have been properly extinguished.

Jurek Martin
U.S. Editor

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Euromarkets

CONTINUED FROM PREVIOUS PAGE

ket. The next major Brazilian loan, \$100m. to finance the new Rio de Janeiro airport, was increased in size in the course of the selling period; but bankers questioned the extent to which this was indicative of an improvement in Brazilian status. Another example is provided by the \$600m. loan currently being syndicated for the Moscow-based International Investment Bank. This too has been very slow in the syndication stages. A \$400m. loan for the Algerian State enterprise Sonatrach, another traditional large-scale borrower, has also reportedly met with resistance among international banks.

A \$200m. loan for Morocco by contrast has been increased in size to \$300m. admittedly with the help of decisions among the managing banks to put up slightly more than they had originally intended. Morocco has borrowed very little in the past. There was little difficulty over a loan for Thailand, a new borrower this year, despite the various political factors which might have been cited against the advisability of the country as an investment for Euromarket banks.

Geography is only one of the factors affecting bankers' willingness—or lack of willingness—to lend. There are also indications of a swing away from general purpose finance to a preference for lending which is specifically linked to particular projects. This is difficult to document—and indeed during the last 18 months banks have shown a remarkable capacity to lend for general purposes or even to finance oil imports in the short- and medium-term, the ultimate in consumption expenditure.

However, the extent to which loan requests are tied to investment in specific profit-yielding investments is expected to be an increasingly important factor in their success in the future. Banks are also expected to tie a greater proportion of their lending to specific international purchases of goods.

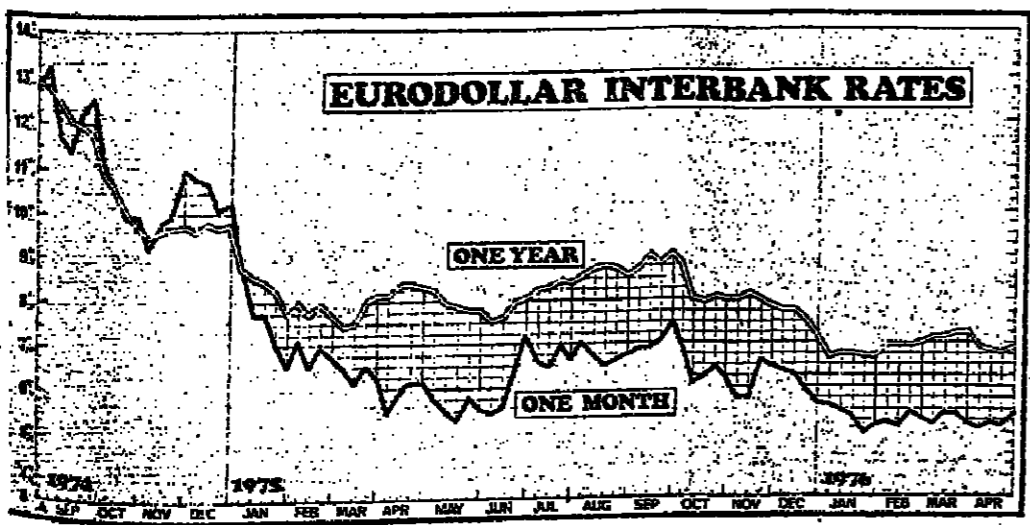
In the bond markets the signs are that the boom of the last year is over. During the recession in the international bond markets between early 1973 and early 1975 a large store of potential investment funds built up. When the interest rate cycle turned, these funds were switched from the money markets to the bond

markets, providing a major source of liquidity. There have been suggestions recently that this liquidity is beginning to dry up and even that the expected turn-round in interest rates in the U.S.—which would lead to an upturn in Eurocurrency rates—could promote a wave of selling in the bond market.

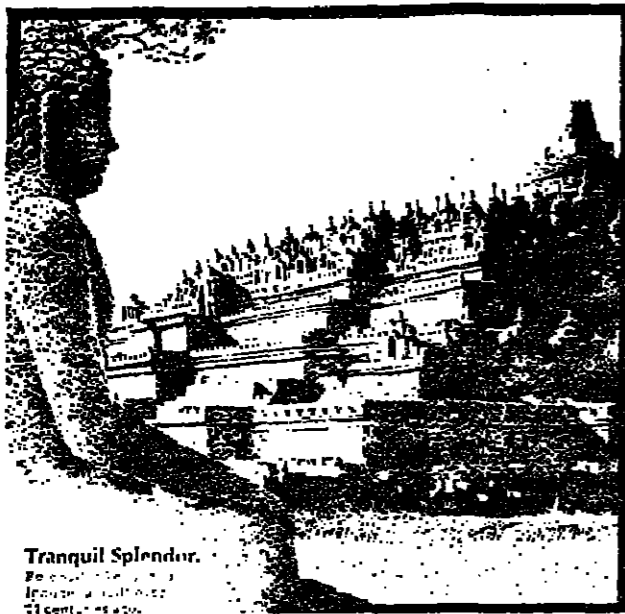
The extent to which an upturn in interest rates cuts back new issue activity in the Eurobond market probably depends, more than anything else, on the extent to which Eurobond issues made during the past year have been placed with banks rather than with long-term investors. During the past year banks could have made a useful turn on the difference between their cost of short-term funds and the yields which new issues have offered. If they have indeed been large scale investors in bonds during the past year, as some argue, then one must expect a wave of selling as soon as interest rates turn.

Other observers, however, say that banks have put up only a tiny proportion of the overall sums which have been invested in new Eurobond issues during the past year—banks learned their lesson, it is said, during the previous cycle on the Eurobond market.

Mary Campbell



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WORLD BANKING XXIV DEVELOPMENT FINANCE

Still a great gap to cover

WHATEVER success attends the big drive the developing countries have now launched to secure wholesale changes in the ground rules governing their position in the world, it is abundantly clear that most of them will continue to stand in need for a long time to come of access to a liberal supply of development finance.

In many cases the poverty of their peoples is such that any relief they derive from the arrival of the new order will have to be devoted to raising the standard of life from its present deplorably low levels. And that means that a sizeable part of the development finance required to bring their economies to the point where they can stand on their own feet will necessarily have to be mobilised elsewhere.

Broadly speaking, things have not been going at all badly for them in this sense in the past few years—though the benefits their successes should have conferred upon them have been to a significant extent cancelled out, more especially since the beginning of 1974, by the financial setbacks they have suffered in other directions.

It is true that the value of official aid received from advanced countries has, until recently, been tending to diminish in real terms since the late 1960s, the donor countries having shown themselves—with a few notable exceptions—unwilling to expand monetary allocations to the extent required to cancel out the erosive effect of the fall in the purchasing power of their currencies.

On the other hand, the inflow of money arising from foreign direct investment has been fairly well maintained. And there has been a very impressive increase in the amount raised by recourse to international money markets—particularly in the case of those developing countries that have built up sufficient economic strength to command a reasonable credit rating.

Between 1965—when the

developing world first began to get involved in the international money market business in a big way—and the end of 1974 the indebtedness of the 86 countries for which records are available grew from \$39bn. to \$119bn. And a sizeable part of that is accounted for by the raising of loans in Euro-currency and similar markets.

The past five years have also seen a considerable stepping up of the amount of cash flowing into the Third World through the World Bank. The regional development banks, set up for the most part in the 1960s, have been getting into their stride and making a sizeable contribution to development in their areas—both directly and indirectly by providing an important source of lending resources for national development banks functioning there.

Damage

Moreover, though most developing countries outside the oil-producing category have suffered a good deal of damage from the oil prices explosion, it has had compensations for them in the sense that it has opened up a major new source of development finance. Thus last year the oil-producing countries devoted close on \$5bn. to financial aid to non-oil producing countries, which was about the same as in the previous year but far beyond pre-oil explosion levels.

The great bulk of it went, it is true, to other Arab countries. But some of these are among the most needy of developing countries and the willingness of the oil producers to take them under their wings should free for other uses some of the money they would have obtained from their normal donors.

Turning from the past to the future, there are indications that, under most headings, development finance will be flowing rather more freely to Third World countries in the more immediate future. An examination of donor countries' aid plans

for the year ahead recently published by the Organisation for Economic Co-operation and Development came to the conclusion that there would be a modest increase in total allocations in real terms.

It would also seem that, after slowing down markedly in the 1974-75 period, the mobilisation of capital in the Euro-currency market is now beginning to pick up again. And though the OPEC countries, having seen their surpluses melting away much faster than they had envisaged, are showing rather less readiness to part with their money for good causes, there is a reasonable hope that their 1976 aid allocations will not fall materially short of the 1975 total.

The World Bank has outlined plans for a major new expansion in its annual lending figure to operate between now and the close of this decade. And most of the regional development banks clearly have similar intentions. Furthermore, a new source of external finance is due to be opened up for the use of developing countries as soon as the technical arrangements for liquidating part of the IMF's gold and putting the profit at their disposal have been finalised.

Against this, it has to be recognised that there now appears to be very little chance of the developing world's hopes of seeing a link established between development aid and the international liquidity system to provide a major new source of untied assistance being fulfilled for some considerable time to come—if at all.

This is not so much because of continuing opposition to the idea from the advanced countries though that has not entirely vanished. It is because that on present indications the world is not going to stand in need of any liquidity creation for a long time to come—one of the side-effects of the oil prices explosion having been to set the stock moving up by leaps and bounds without any assistance of this kind.

However, though the trend should henceforward be in the right direction rather than the wrong, one thing is quite certain. It is, as I said at the start, that the flow of development finance will continue to the level below the levels needed to enable the general pressed most pugnaciously in run of the recipient countries

to undertake new investment on the scale needed to set their Gross National Products rising at a meaningful pace. And for this reason a great deal of importance is attached to the outcome of the current negotiations for a new international economic order with particular regard to an aspect of them that has special significance for capital flows.

Broadly speaking, creditor countries have always been ready to accommodate developing countries that had got into serious difficulties over their external indebtedness. But their main aim in negotiating on these problems has always been to put the debtor in a position to deal with its obligations. The

consequences of any such arrangements for its economic outlook have received, all too often, scant attention.

It is concerned with the proposal to grant moratorium concessions to developing countries that are finding the interest service on their existing debts and repayment obligations imposing an intolerable strain on their external payments positions. And, in some cases, the sums that have to be found on this account are now absorbing almost the whole of new overseas aid.

The hope is that the exchange of views with the advanced countries on the debts aspect of the development issue will lead to a much greater willingness on the part of the latter to lighten the interest burden and either cancel unrepayable obligations altogether or spread them over a much longer period of time.

That would directly contribute to the solution of the World's development finance problem by materially reducing the proportion of foreign exchange earnings and capital flows absorbed by servicing old debts. And it would indirectly do so by making it easier for them to raise appreciably easier to raise in the international capital markets.

C. Gordon Teal

WEST GERMANY

New banking law

A NEW German Banking Act, against the Bundesbank, and the other against the Federal Republic, started by an association of Herstatt depositors last month. It imposes stricter requirements on the licensing of banks, their procedures, liquidity criteria and reporting rules. The powers of the Federal Banking Office, based in Berlin, will be increased.

An important innovation concerns the handling of insolventcies. Creditors of a bank in difficulties will no longer be able to initiate insolvency proceedings; this will become the prerogative of the Office, which can also impose a moratorium to allow time for any rescue operation, and change of management if necessary.

This banking law reform was conceived shortly after the failure of the Herstatt Bank, which not only threatened to damage the good name of German banking, but also led to severe criticism of the way in which the Bundesbank and the Federal Banking Office looked (or did not look) after the creditors' interests. This criticism well below the levels needed to enable the general pressed most pugnaciously in run of the recipient countries

the course of two law suits one against the Bundesbank, and the other against the Federal Republic, started by an association of Herstatt depositors last month. It imposes stricter requirements on the licensing of banks, their procedures, liquidity criteria and reporting rules. The powers of the Federal Banking Office, based in Berlin, will be increased.

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Balance Sheet as at December 31st, 1975

ASSETS	Francs		LIABILITIES	Francs	
	Francs	Francs		Francs	Francs
CURRENT ASSETS			CURRENT LIABILITIES		
Liquid assets			Liabilities to banks, payable for periods up to 30 days		9,662,413,480
Cash	17,185		Liabilities to banks for agreed periods of more than 30 days		16,498,857,120
Balances with banks, payable for periods up to 30 days	6,417,363,983	6,417,381,168	Deposits and current accounts Payable on demand or for agreed periods up to 30 days	12,755,313	
Balances with banks for agreed periods of more than 30 days		8,162,065,348	For agreed periods	920,424,001	933,179,314
Balances with non-banking finance establishments		20,150,000	Sundry creditors		752,988
Bills discounted		1,101,684,041	Miscellaneous		620,319,539
Other advances			Trust-accounts		23,620,407
Secured	3,762,202,337		CAPITAL AND RESERVES		
Unsecured	5,427,392,220	9,189,594,557	Capital	750,000,000	
Securities			less uncalled		
Foreign State and Municipal Securities	774,216,484		Capital, paid in		750,000,000
Other interest-bearing securities	1,325,146,120		Statutory reserves		75,000,000
Shares and other Securities	1,337,865,418	3,437,228,022	Free reserves		52,000,000
Miscellaneous		444,968,281	Provisions for contingencies and depreciation		219,046,740
Trust-accounts		23,620,407	PROFIT AND LOSS ACCOUNT		
FIXED ASSETS			Balance brought forward	745,126	
Participations		4,602,500	Profit of the financial year	76,451,720	77,196,846
Claims on affiliated companies		76,850,000			
Real estate	30,411,980				
Less depreciation	58,522				
Net book amount		30,353,458			
Furniture and equipment		3,868,652			
		38,912,386,434	CONTINGENT ACCOUNTS		
			Commitments	1,673,401,000	
			Guarantees on behalf of third parties	614,800,000	

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هكزامن الأشهر

CONSORTIA

er Signs of renewed confidence

CONSORTIUM banks, the at least in normal times, of a multi-national partnerships good inflow of funds from depositors with surplus cash re- the big Eurocurrency markets, sources, supplying the raw have had a much happier time material for their own lending in the past year after the sharp check to their growth in the 1974-75 period.

Confidence has again flowed into the international banking system, with the signs of recovery from worldwide recession. And the consortium banks, some of which felt the penalties of over-expansion in the troubled atmosphere following the mid-1974 collapse of the I. D. Herstatt bank in Germany, have emerged from a spell of self-examination more confident and, in some cases, more cautious.

Just how active and buoyant conditions have become for the consortia, with their key place in the Eurocurrency markets, can be judged from the record flow in recent months of Euro-bond issues, through which companies and other public bodies tap international financial markets for medium- and long-term loans.

Total issues of this nature in the first four months of 1976 have been \$3.9bn. (£2.2bn.); an unprecedented level of activity. In the whole of 1975, when this type of business was reviving rapidly, issues amounted to \$6.2bn. In 1974, they had ebbed to as little as \$1.4bn., with the abrupt near-halt to the bond market after the Herstatt affair, while in 1973 the figure had been \$3.1bn.

Suitable

A role in fixing up, or participating in, such issues is especially suitable for consortium banks, whose membership typically consists of several sizeable—in some cases, very large—banks in different industrial and sometimes developing countries.

Thus, at least one member of a major consortium bank has a good chance of being in touch with many prospective borrowers. On the other hand, the consortium banks, as to others, and consortium banks are recipients, are unlikely to reverse the more,

it is said. The disposition of a certain part of the consortia's funds into Eurobonds is thus, it is claimed, quite reasonable, particularly in the more assured world banking climate now prevailing.

In any event, it seems unlikely that the pace of Eurobond issues can be continued at the speed seen in early-1976.

Caution

Certainly, all the signs are that consortium banks enjoy greater confidence than before the 1974-75 upheaval and that the post-Herstatt phase must have re-emphasised the need for caution in policy formation.

One highly significant development which has much fortified confidence was the Bank of England's move in the wake of the Herstatt troubles to secure assurances from the parent banks of London-based consortium banks that they would stand by their progeny in any case of need. The fact that the Bank received the promises it sought has contributed greatly to the stability of the consortium bank industry and provided a reinforced foundation for the present phase of expansion.

All the indications are that the 1974-75 shake-up has left consortium banking—itsself a phenomenon dating back only some five years—not only rather more carefully thought out concept but in some degree a more streamlined one in character and organisation.

There has also tended to be a further shift of the centre of gravity towards the larger groups. There have been several changes reinforcing the relative interest of larger groups in consortium banks. Rothschild International Bank, previously linked with the merchant bank N. M. Rothschild and Sons, has, for instance, been taken over by the big American Express group's Amex Bank.

Other alterations have involved the termination of reduc-

tion in the proportionate share holdings of London merchant banks in consortia. This has recognised the fact that, with the growth in a consortium's operations, the commitment would be out of scale with the smaller size of the merchant banks.

Hambros Bank has sold its holding in Western American Bank, where the parent banks had had to help out in the troubled 1974-75 era, leaving larger American banks and the Bank of Tokyo sharing the capital. Merrill Lynch, the large U.S. stockbroker and trading business, has stepped up its holding in the joint Merrill Lynch-Brown Shipley concern so that the stake of Brown Shipley, the merchant bank, has dropped to 5 per cent. from 26 per cent. previously.

These moves are not the only pointers to the centre of gravity shifting towards the biggest groups in the consortium bank field. Such a trend is also sug-

gested by the recent somewhat flat record of total activity, despite the Eurobond boom, in the combined total business of the consortia suggesting perhaps of 74 concerns. Of these, six that expansion among the largest may have been accompanied by greater caution in some other groups.

While the consortia as a whole enjoyed revived activity, along with the Euromarkets generally, as 1975 succeeded 1974, they did not demonstrate the steady increase in business throughout the year that the total market showed.

For instance, while the total foreign currency liabilities of banks in Britain rose last year from \$159bn. in February to \$174bn. in November, those of the consortium banks just levelled off, to \$9.8bn. against \$10.1bn.

The degree of concentration within the consortium field has recently been underlined by the Bank of England study. The Bank's December Quarterly

Bulletin pointed out that, of foreign currency deposits held by all banks in Britain, as much as 83 per cent. was in the hands of 74 concerns. Of these, six were consortium banks, though the sum total of all such banks is higher.

The inference from this tends to be that there is a pretty high degree of concentration of business, in money terms, in the largest consortia. These include Orion Bank, where the National Westminster is a shareholder. Midland and International Banks (MAIBL), including the Midland Bank and International Commercial Bank.

Specialist

Apart from rather smaller general groupings, the industry is also characterised by a range of specialist consortia, some of geographical orientation. Among those with major backers are two looking particularly to Latin America—Libra Bank, related

to Orion, and Euro-Latin American Bank, with the Barclays Bank group among its shareholders. Union des Banques Arabes et Françaises and Iran Overseas Investment Bank are specially concerned with the Middle East.

The consortium method is only one route by which the big clearing banks have taken steps, in recent years, to "go international" on a much more extensive scale, and it is one much more favoured by some than others.

The Midland Bank, which has few directly owned overseas operations of its own, has particularly inclined towards the consortium way of establishing links internationally. In addition to its stake in MAIBL, with Standard Chartered Bank, Toronto Dominion Bank and Commercial Bank of Australia, it is also part of the looser EBIC grouping, with other major European banks.

Barclays, with a wide-ranging overseas network, particularly in Africa, through Barclays Bank International (formerly Barclays DCO), was perhaps a less ready enthusiast for the idea at first. But it is now a member of the powerful Société Financière Européenne grouping while it also, through BFI, participates in the active International Energy Bank with major partners.

International Energy Bank, along with Republic National Bank of Dallas handled one of this year's most major issues when, in February, they fixed up

Margaret Reid

West Germany

CONTINUED FROM PREVIOUS PAGE

the performance of its statutory duties.

The regional court in Bonn will give its judgment in this case on May 11, and whatever its conclusions, the judgment will give unwelcome publicity to matters which the German banking community would prefer to be settled "in the family." They have done much to repair the damage which their image has suffered through the Herstatt failure. Herr Hans Apel, the Federal Minister of Finance, has praised the co-operation between banks and Government in dealing with the aftermath of Herstatt and in providing greater security for depositors.

He even claimed that, as a result of measures taken by the banks and by the Government, depositors now enjoy greater security in Germany than any-

where else in the Western world.

The first test of the new solidarity of German banks was provided by the failure of the F&L-Kredit-Bank when the Federation of German Banks paid out about DM150m. to compensate depositors. Similar arrangements for the protection of depositors have been agreed by the savings banks and co-operative banks, so that a bank will not be driven into liquidation without a serious attempt at its rescue. The Federal Banking Office will in future have the exclusive power to initiate insolvency proceedings.

The new Act should also make it less likely that things will get so out of hand that a moratorium and rescue, or insolvency, become necessary. Apart from stricter credit rules—large loans

ally exercised by the bankruptcy court. As soon as a bank's solvency appears to be threatened, the Office can impose a moratorium on its payments and other operations, to enable other banks and large creditors to seek a solution—or at least to keep losses low if no rescue is possible. At the same time the Office can replace the bank's management. To ensure that a bank will not be driven into liquidation without a serious attempt at its rescue, the Federal Banking Office will in future have the exclusive power to initiate insolvency proceedings.

The new Act should also make it less likely that things will get so out of hand that a moratorium and rescue, or insolvency, become necessary. Apart from stricter credit rules—large loans

will be limited to 75 per cent. of the bank's own capital—and stricter licensing of banks, the reporting requirements will be stepped up considerably.

The most significant innovation is the obligation to report any loss amounting to 25 per cent. of the bank's own capital. The reporting thresholds for large credits and shareholdings will be lowered, and banks will have to report all non-banking business activities.

Existing German accounting rules required banks to show separately holdings representing 25 per cent. or more of a company's capital, and not to invest more in real estate, ships and shareholdings than the equivalent of their own capital. German banks—and foreign banks established in Germany—are preparing for transition to

the new rules, some of which become effective almost immediately, others in the course of the next five years.

The exemption, which the Federal Banking Office is empowered to grant from the rules and credit limits are likely to prove as important as the rules themselves. Though Germany retains its reporting system as the main instrument of supervision, this is likely to be "Americanised" a little by the introduction of special audits. Auditors appointed by the Office will visit the banks on a rota—a provision which will be precautionary and will also avoid alarming the public by cloaking the arrival of the inspectors in the mantle of routine.

A. H. Hermann

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Consolidated Statement of Condition
December 31, 1975

Assets	
Cash	\$ 152,807,000
Investment securities:	
U.S. Government securities	46,248,000
State and municipal securities	166,322,000
Other securities	108,197,000
Total investment securities	320,767,000
Trading account securities	3,380,000
Federal funds sold and securities purchased under agreements to resell	53,550,000
Loans:	
Loans	916,022,000
Unearned income	14,272,000
Reserve for possible loan losses	9,300,000
Net loans	391,850,000
Premises and equipment	11,235,000
Other assets	32,596,000
Total Assets	\$1,501,285,000
Liabilities	
Demand deposits	\$ 604,772,000
Savings deposits	208,500,000
Time deposits	448,153,000
Total Deposits	1,261,425,000
Federal funds purchased	88,460,000
Accrued taxes and other expenses	22,637,000
Other liabilities	11,893,000
Capital notes, 7 1/2% due 1997	21,000,000
Total Liabilities	1,405,215,000
Shareholder's Equity	
Capital stock, par value \$12; authorized, issued and outstanding; 1975 and 1974, 1,246,518 shares	14,963,000
Surplus	47,844,000
Undivided profits	33,168,000
Total Shareholder's Equity	96,075,000
Total Liabilities and Shareholder's Equity	\$1,501,285,000

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WORLD BANKING XXVI

OFFSHORE CENTRES

Slower rate of expansion

IN THE ephemeral world of off-shore banking two things stand out at the moment. First, big banks have been earning handsome profits from their foreign operations at a time when the world economy has been suffering its worst recession for over 40 years. Secondly, the hectic pace of overseas expansion which characterised the late 1960s and early 1970s has tailed off.

This is partly the result of less attractive business opportunities in formerly rapidly growing overseas markets and partly of official curbs on overseas expansion. The U.S. Federal Reserve, for example, has been adopting a much tougher line on U.S. banks' overseas acquisitions since 1974 and Japanese banks have cut back sharply their activity in the medium-term Eurocurrency market on orders from the Ministry of Finance.

At the same time regulatory authorities around the world have become much more choosy about giving banks permission to operate in their domain. Nowadays, it is far harder for a small foreign bank to win fully authorised banking status in London than it was five years ago. It is understood that the Iranian authorities now feel that there are enough foreign banks operating in Tehran for the time being, and the Bahrain Monetary Authority, which is bidding to turn the island into a major Mid-East financial centre, is known to want to restrict its off-shore banking fraternity to the elite ranks of the top 50 banks in the world.

These factors have all tended to restrain the physical expansion of banks overseas. The numbers of banks operating in both London and Luxembourg, for instance, actually fell in 1975 for the first time for many years. Nevertheless, certain financial centres weathered the difficulties of 1974/75 far better than others. The two areas where international bankers are currently expanding fastest are North America and the Middle East.

In the Middle East the major change over the past 12 months has been the collapse of Beirut as a result of the fierce fighting that has been raging through the City's financial district. It has been reported that the offices of 26 of the City's 70-odd

foreign banks have been partly or totally destroyed. Beirut used to be referred to as the "Zurich of the Middle East" and its physical destruction marks the first complete eclipse of a major international financial centre since World War II. It was the nerve centre for most international banks' Mid-East operations. Some banks (most notably Citibank) moved their Singapore and London headquarters to Athens while others pulled back to London and Paris. The big question is: can Beirut regain its former financial pre-eminence if, and when, the civil war finishes?

A number of other Mid-East centres are keen to pick up Beirut's lost business. Bahrain has been quick off the mark. Last October it announced the establishment of an off-shore banking enclave. So far 32 banks have been issued with off-shore licences (including most of the world's major banks) and another 20 banks have submitted applications (the annual licence fee only costs \$25,000). Bahrain has emerged as a major dealing centre for local Arab currencies and many bankers feel that a common Gulf currency could appear within the next 18 months. London money brokers, M. W. Marshall, opened an office last month which is another sign that international bankers are taking Bahrain seriously. Looking ahead, the more optimistic believe that Bahrain could soon assume the same degree of importance in the Mid-East as Singapore has in South East Asia.

Contender

But Bahrain is not the only contender for Beirut's former title. The United Arab Emirates (UAE) has announced that it will allow about 12 off-shore banking units to operate in its territory. As with Bahrain, the UAE Currency Board wants only the world's largest banks to apply for licences.

Other aspiring Mid-East centres are watching Bahrain's progress closely. Theoretically Cairo would make a "natural" financial centre. It has recently set up an off-shore banking zone but the City's appalling communications and interminable bureaucracy seriously inhibit its future prospects. Amman, Kuwait and Tehran are also up-

U.K. BANKS' BUSINESS WITH OFF-SHORE CENTRES*—(\$m.)

U.K. LIABILITIES	1971	1972	1973	1974	1975	% Increase 1974-75
Bahamas	313	324	893	1,127	2,281	+ 102.4
Hong Kong	65	158	350	957	1,380	+ 44.2
Bermuda	212	319	456	690	814	+ 18.0
Panama	166	215	217	603	753	+ 24.9
International banks' Mid-East operations	348	403	673	803	749	- 6.7
Cayman Isles	1	27	174	243	691	+ 182.0
Singapore	31	91	347	480	652	+ 35.8
Liberia	92	120	276	277	299	+ 7.9
Netherlands Antilles	70	84	96	113	149	+ 31.8
New Hebrides	—	—	2	8	2	—
U.K. CLAIMS	1971	1972	1973	1974	1975	% Increase 1974-75
Bahamas	1,108	1,888	2,994	3,025	5,363	+ 77.3
Singapore	167	392	664	1,237	1,742	+ 40.8
Hong Kong	24	113	435	965	1,528	+ 58.3
Panama	279	433	802	1,087	1,390	+ 27.9
Cayman Isles	6	24	244	406	1,333	+ 228.3
Liberia	90	187	448	565	813	+ 43.9
Netherlands Antilles	230	259	271	154	153	- 18.8
Bermuda	57	81	115	144	136	- 5.2
Lebanon	12	6	37	52	69	+ 32.7
New Hebrides	—	—	29	27	19	- 31.1

Source: Bank of England Quarterly Bulletin.

* External liabilities and claims of U.K. banks in foreign currencies.

grading their financial facilities with varying degrees of enthusiasm. Tehran has been making a special effort and has drawn heavily on British and American financial experience. There are 12 foreign joint venture banks in Tehran and 40 representative offices. But as with other Mid-East centres Tehran's development as a financial centre is restricted by its insistence on majority Iranian control of all banking operations.

The other area which has been the centre of international bankers' attention over the last 18 months has been the Caribbean off-shore centres and North America. The Cayman Isles' importance as a financial centre has been growing especially quickly. U.K. banks' external claims on Cayman Isles banks amounted to no more than \$5m. four years ago. At the end of 1975 they amounted to \$1.3bn. One reason for the Caymans' spectacular growth is that some of the smaller U.S. banks are moving their off-shore branches from Nassau to Georgetown. The First National Bank of Minneapolis is the latest example.

But the big advantage of the Caymans (as with the Bahamas for that matter) is its tax haven status. Northern Trust of Chicago and Bankers Trust of New York are just two of a number of banks which are developing their trust operations through recently established Cayman subsidiaries. The centre is well placed to service Latin America.

On the North American mainland, international bankers' attention has been concentrated on New York city, since the ending of U.S. capital controls in 1974, is fast re-emerging as the most important financial centre in the world. Six of the seven largest banks in the U.S. are based in New York and they

make a quarter of all loans to American business. Over the last three years the number of foreign banks operating in the U.S. (not counting representative offices) has grown from 104 to 184 and their total assets have increased from \$24bn. to \$64.3bn.

Foreign bank operations in New York are still less than half the size of those in London, where they control \$144.2bn. but the number of foreign banks in the U.S., and the volume of business they are writing, is now growing considerably faster than in London's case. Since November 1972 foreign banks' share of total U.S. commercial bank assets has risen from 3.2 per cent. to 6.7 per cent. In addition U.S. banks are now doing far more foreign lending from their head offices which is bound to enhance New York's international stature. Since the ending of U.S. capital controls domestic-based foreign assets of U.S. banks have increased by 114.2 per cent. to \$57.2bn. By comparison U.S. banks' foreign branch assets have grown by only 41.5 per cent. to \$17.5bn.

New York's dominance has not gone unchallenged. A recent estimate indicated that its share of America's international banking market had declined from 90 per cent. to 75 per cent. over the last 30 years. A number of regional centres have become increasingly important. Chicago passed a law permitting foreign banks to operate in the City in October, 1973, and since then foreign banks have opened 22 branches and 16 representative offices which now control assets of \$1.3bn. The big attraction of Chicago is the fact that over 40 per cent. of U.S. GNP is generated within a 500-mile radius of the city (including 50 per cent. of the country's car production).

Further south, Houston is becoming increasingly important. Between 1969 and 1974 its share of America's foreign trade increased from 6 per cent. to 10 per cent. In 1972 Citibank opened the city's first out-of-State Edge Act subsidiary (for international banking purposes) and others quickly followed. Today, 6 out of the top 8 banks in the U.S. have Houston Edge Act corporations. In addition 11 foreign banks have representative offices. In January the Bank of Tokyo surprised local banks by setting up an Edge Act affiliate to do international banking. Other banks may follow its example.

The other area in North America where foreign banks have been opening offices in a big way is Canada. Theoretically, Canada bars foreign banks but a growing number of foreign banks (led by the Americans) have been breaking into the Canadian market through finance and leasing companies. The number of foreign banks has jumped from 60 in 1967 to around 200. There are 43 representative offices, 78 finance companies, and 38 leasing companies. Toronto is the favourite base (125 foreign banks), followed by Montreal (59) and Vancouver (15). Their total assets amount to \$1.9bn. The rapid influx of foreign banks has upset local bankers and there are moves afoot to restrict their future growth.

Subdued

By contrast with the growth of the Mid-East and North American regional financial centres, activity in other parts of the world has been far more subdued. In Latin America, Panama and Caracas are vying with each other for superiority.

Until recently Panama, with attractive tax possibilities, a "open-door" policy toward foreign banks, looked to be placed to secure the bulk of new business in the region. Bankers Trust, Royal Bank Canada, and Union Bank Switzerland have all reopened branches.

But there is no doubt that Venezuela is making a concerted effort to develop its financial infrastructure. Bank of America gave its seal of approval when it recently decided to locate powerful regional headquarters in Caracas and a number of banks including Credit Lyonnais and Bank Hapoalim have opened representative offices in Caracas over the past 12 months. As with so many of Latin American countries, however, local curbs on foreign bank activity are likely to stifle Caracas's development.

In the Far East Singapore has consolidated its lead as the major local financial centre although the growth of the dollar market has slowed considerably. It now amounts to \$1.1bn, which is still "nuts" when compared with Euromarket's size. Singapore first began issuing off-shore banking licences in 1973 since then 21 licences have been issued. During 1975 Royal Bank of Canada, Morgan Guaranty and Swiss Bank Corp., among others, were granted off-shore licences. Singapore dollar deposits of over \$1.5bn were issued for the first time in 1975. A number of money houses have opened offices. But Singapore has its drawbacks. It is little dealing in local currencies and political tensions with some other Asian states (mainly Malaysia) force banks to deposit their funds in a more neutral centre.

Elsewhere, the Philippines, which will host this year's meeting, is known to want to develop as a regional financial centre and other cities (not Kuala Lumpur and Jakarta) are developing their financial infrastructure. In the long term, however, Tokyo seems set to develop as a major international financial centre if no other reason than the shadows of Japan's economy which, identifying possible market useful rule of thumb is to multiply the projected growth rate by a country's cut GNP. On this basis the will remain the single important market, followed by Western Europe and Japan. Among third world countries (aside from the Middle East, Brazil, Mexico, Nigeria, Indonesia are worthy of a mention, as are the Comoros).

William I
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THE THIRD WORLD

Deficits increase

THE PAST year has been characterised by a marked improvement in many aspects of the world payments picture. The gross distortions produced by the oil price explosion in the closing months of 1973 have been considerably whittled down by the new trends it subsequently set in motion. Thus the affluent countries, the have, as a group, all but eliminated the huge deficit they developed in 1974. And, thanks in part to a big upsurge in spending on imports and in part to a contraction in the demand for their products caused by the world recession, the oil producers' surplus has dropped dramatically from the 'highly embarrassing level it reached at that time.

It is a sad irony that, in the sector wherein an early return to normal was most badly needed—that concerned with the Third World's non oil-producing countries—it has been conspicuous by its absence. Indeed, here the situation has, at least until quite recently, been moving in the wrong direction. In particular, a sizeable part of the collective oil deficit has been off-loaded on to these countries, with the result that they have been running bigger external payments gaps than ever.

The "offloading" was not, of course, deliberate. It came about largely because, with commodity prices falling away from the high levels reached earlier in the 1970s, many of these countries have experienced a sharp drop in export earnings under the more important headings. And the impact of this on their current account payments experience has been accentuated, unhappily, by two other developments. One is the tendency for the prices charged for imports of manufactured goods from the industrialised world to continue advancing in

Harder

With external capital getting harder to come by under some other headings and the fall in price of commodities joining forces with the shrinkage in foreign markets for them to exert a restraining effect on economic activity at home, the climate has been far from conducive to development in nearly all the Third World countries outside the oil-producing category. And as World Bank President Robert McNamara pointed out in his address to the last annual meeting, the consequence has been to halt or even reverse the all-too-slow advance in living standards they had been experiencing since the opening of the 1970s.

The picture has been rendered a little brighter—at least for developing countries primarily engaged in the production of food and raw materials—by the tendency for commodity prices to start moving upwards again in response to global recovery talk and the intensified search for alternatives to holding

wealth in money form. But as the major endeavour has fallen well short

of what it was agreed would be reasonable. Thus, at the moment, the total flow of official development finance from the rich countries is barely reaching a half of 0.7 per cent of their Gross National Product—the United Nations' far from ambitious target.

World Bank calculations indicate that, with their populations continuing to advance by leaps and bounds, countries in this category will need annual capital inflows averaging \$40bn. over the next five years—nearly half as much again as they have been getting of late—just to secure a per-capita rise in incomes of the miserable order of 1.2 per cent. To achieve the more tolerable rate of 3 per cent, the annual capital requirement would have to be around \$61bn., or double the present figure.

It is for this reason that these countries are now attaching so much importance to the outcome of their efforts to "sell" the idea of establishing a new international economic order to the advanced world. For while they did not fare too badly during the United Nations' first development decade, spanning the 1960s, the story for the second, covering the 1970s, is turning out to be an extremely disappointing affair—with little or no progress towards targets to show over the first half and no indications that the remaining years will do any better.

The approach to the treatment of the world poverty problem has hitherto put the main emphasis on the transfer of financial resources from the advanced world for use in promoting capital projects—though in the recent past more attention has been paid to the case for placing the recipients in a better position to work in their passage in the development sense by providing them with wider markets for their manufactures.

It has to be said that performance even in this limited underline that even quite large banks were not imbued with

achieved, would not be anything like enough. There is, indeed, no secret in being made of the fact that the main purpose of this revolutionary idea is to give the poor countries an appreciable better deal before the going to be needed—if there is to be any hope of putting the poorer of the developing countries in a position to bring about a much-needed rise of substance in living standards while coping with a continuing rapid increase in the number of mouths to be fed.

The purpose of the new international economic order would be to set out the principles for such a new set-up—one which would function, it should be emphasised, within a context wherein co-operation would take the place of confrontation. The intention would be to order all the main aspects of the relationship between the advanced countries and the Third World in such a fashion as to strike a much better balance between their interests—for example, by giving greater stability to world commodity markets and establishing closer control over the behaviour of the terms of trade

tan) had featured on the "problem list" compiled by the Comptroller of the Currency. Again, the Comptroller was at pains to point out that in his assessment neither bank was about to go bankrupt. But that was hardly enough to deflect on its own Congressional determination.

At the same time, of course, Congress was getting its teeth into other sacred American institutions: the Central Intelligence Agency and the FBI were being closely examined and, more particularly, U.S. corporations were being found to have bribed left, right and centre overseas in the pursuit of commercial sales. All of this coincided with disclosure of American banking's fallibility.

A quick look at the books of any of the big banks was likely to show bad loan provisions at unprecedented levels. Any Congressman worth his salt knew the banks had lent heavily to the real estate investment trusts (REITs) and knew exactly to what straits the real estate market had been brought by the ravages of the recession.

And perhaps above all other factors was the realisation of how deeply the major banks were embroiled in municipal financing. Throughout 1975 the City of New York staggered from near-bankruptcy to near-bankruptcy. The seven biggest New York banks held close to \$2bn. in New York city debt (and probably more in the paper issued by New York state, which has financial troubles of its own in abundance). Chase Manhattan bank alone (whose management had been singled out for special criticism in a series of unfavourable newspaper reports) had some \$730m. in City and State-related debt on its books. If the City and State of New York went under, it was widely felt, surely some big banks were going to follow them down the drain.

All these factors seemed to be coming to a head towards the end of last year. This was hardly the best time for the banks, with vulnerability to the REIT losses, the apparent fragility of the shipping market to which the banks were heavily committed and sizeable write-offs for bad debts all contributing to poor third and fourth quarter earnings.

Many of these factors are still present, but somehow, as Wall Street has divined, an osmotic process has changed public sentiment. The recovery in the U.S. economy has much to do with the general feeling, even though the banks themselves have yet, on paper at least, to benefit in a substantial way. The recovery has been largely

Evident

The classic conditions for banking profitability may, therefore, be evident towards the latter half of the year. Most analysts believe, too, that the bad loans and loans which are so bad as to pay minimal returns are diminishing and will continue to do so.

At the same time, less rational push for greater disclosure of and supervision of the banks appears to have abated. This probably does not reflect so much anything the banks have done on their own behalf as that the ebb and flow of Congressional sentiment (which, for example, is now much more benevolently inclined towards the CIA than it was four months ago). Even the worst fears of the bankruptcy of New York City or State have, for the moment, been pushed into the background.

But that sentiment can flow back the other way, as the banks well appreciate. It may well do so if a Democrat ends up in the White House this November, which is quite possible, since if he does it is very likely that the cause of central economic planning in the U.S. will be greatly enhanced (which will certainly have an impact on the banking industry). Even if Mr. Ford is returned, Congress will remain Democratic and may seek to revive the investigative fervour that has gripped it until recently. Therefore the banks will need to have learned well the lessons of the last traumatic year or two.

Jurek Martin

U.S. BANKS

Optimism returns

IN THE LAST couple of months Wall Street has started to cast a more kindly eye on the shares of America's banks. The stock prices of several major U.S. commercial banks have quietly risen some ten per cent. In part this reflects the prevailing bull market sentiment; but more significantly it is symptomatic of the view that the banking industry may be on the process of emerging from one of the more unpleasant bouts of depression and doubt that it has suffered in quite some time.

Complex

At another, and much more complex level, there were questions over whether or not the banking community had been investing its resources wisely. Two years ago Dr. Arthur Burns had warned the banks to be more cautious in their approach. At the start of this year, the Fed's chairman still felt sufficiently moved with concern to warn (in an entirely different context centring on whether or not there should be great public disclosure of banking deposits) that the banks were still vulnerable to a sudden loss of confidence.

The causes for this doubt were manifold. At the turn of this year the great debate in Washington was whether American banks had left themselves open to the whims of capricious foreigners (many of them oil-producing Arabs) who had deposited heavily with them and who could, it was argued, withdraw their money at a stroke.

But Congress, which after all is part of the Washington regulatory system that supervises the industry, had reason for its concern. The Washington Post had found out that two of the country's three largest banks (Citibank and Chase Manhat-

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Painting by Roger Hane

JAPANESE BANKS ABROAD

A tight framework

FOR THE TIME being at least, the big rush by Japanese banks to set up shop overseas appears to be over. In the words of one official at the Finance Ministry—which almost invariably gets its way in such matters—the time has come for a period of "consolidation," during which the Ministry wants to see the banks improve the structure of existing overseas operations before they expand further.

Given the often unruly competition among the banks in the past as they sought to expand abroad, and given their heavy involvement in borrowing short to finance medium and long-term lending, the Ministry's point of view is not hard to understand. At the same time, the banks' own enthusiasm for new overseas ventures has been weakened by the low level of Japanese trade, funding of which represents much of their main offshore activity. Their attitude may well change before long as the trade volume expands in line with worldwide economic recovery, but the Ministry appears determined to ensure that the banks avoid the trauma which unbridled expansion caused them in the past.

A brief look at Japanese banks' offshore activities in recent years suffices to make the point. As of March 31, this year the number of full branches of Japanese banks abroad stood at 101, almost double the number five years earlier. During the same period, the Japanese bank representative offices abroad almost doubled in number to 121 from 63, while wholly- or majority-owned bank subsidiaries quadrupled to 21.

The crucial year, while taught Japanese banks a rather embarrassing lesson, was of course 1974, which saw the collapse of the German Herstatt bank, and turmoil in the Euro-currency markets. Already burdened with the financing of Japan's quadrupled oil import bill, the banks found themselves having to pay a "Japan rate" premium of up to two per cent. just to roll over

short-term borrowings to meet medium and long-term lending commitments.

Japanese banks' short-term external liabilities almost doubled in 1974 to \$24.7bn., producing a net external liability position of \$11.6bn. The Ministry of Finance demonstrated its remarkable ability to control the banks' activities both at home and abroad, reacted with regulations setting a ceiling on their offshore borrowing and lending.

The curbs have since been eased somewhat, but the Ministry still maintains a ceiling (of about \$9bn.) on short-term lending, a virtual freeze on medium and long-term lending at the mid-1974 level of about \$5.5bn., and a ceiling on conversion of foreign exchange into yen for domestic use.

Reflect

Now that the Eurocurrency markets have recovered from their earlier troubles, such controls by the Japanese authorities may seem to reflect excessive caution. But the ever-watchful Ministry of Finance is taking no chances.

It is no secret in Tokyo that the Ministry is concerned at the sheer size of Japanese banks' short-term external liabilities, which rose to \$27.88bn. at the latest count at end-February, with net liabilities at \$14.7bn. There are signs too that the Japanese bank representative offices abroad almost doubled in number to 121 from 63, while wholly- or majority-owned bank subsidiaries quadrupled to 21.

The Ministry is known to have told the banks that for the time being it will only approve new overseas branches and subsidiaries in special cases. It is also known to be considering a measure requiring banks to submit regular reports on the activities of overseas banks in which they have a stake.

One bank which ran into trouble recently was the Bank of Tokyo, which is still holding talks with the Brazilian authorities on how to deal with the financial problems of the Finan-

cial Investment Bank, in which it has a 30 per cent. interest.

It seems likely the banks will move to increase their medium-term borrowings on the Euro-dollar CD market, the better to match their lending commitments. For the same reason, it seems likely that commercial banks will finally be given permission to make bond issues overseas.

This is a highly controversial issue, since it would represent a major break in Japan's traditional demarcation between short- and long-term financing activities. Not surprisingly, stiff opposition has come from the three long-term credit banks, which have traditionally been allowed to make overseas issues, and which fear eventual encroachment on their long-term lending territory.

Securities companies have also protested that a flood of bank issues would crowd out industrial borrowers, and deprive the securities firms of underwriting business—since many commercial banks could use overseas joint ventures to handle the issues.

The Finance Ministry has still given no official indication which way it will act on recent commercial bank applications to start issuing overseas bonds. But the balance of opinion in banking circles is that permission will be granted for a limited number of issues, perhaps starting from the second half of this year.

Given the tight framework of controls within which they must conduct their overseas operations, Japanese banks basically are waiting as patiently as they know how for the anticipated upturn in trade financing business.

Here the outlook is encouraging. In 1975 Japan's exports were stagnant, while imports declined 6 per cent.; but the latest forward-looking statistics indicate that a sharp rise in exports will lead Japan's economic recovery, and that imports will increase accordingly.

The Government is officially

projecting a 13 per cent. rise in 1976. In custom-cleared exports in fiscal 1976 (which began last month), while imports are expected to increase 16 per cent. to \$68.1bn.

Looking further ahead, two likely future trends in Japanese offshore banking should be mentioned. One, which has been receiving considerable official approval in Japan of

late, is a trend towards more use of yen to finance Japanese trade. At present, about 80 per cent. of Japan's exports and all but a negligible proportion of imports are financed in dollars.

While the Finance Ministry is taking great pains to stress that any shift to more use of the yen will have to be extremely gradual, it is making no secret of its desire gradually to escape from such heavy dependence on borrowed dollars.

In cautious moves towards more internationalisation of the yen, the Ministry has already let it be known that it now favours official overseas holdings of the yen as a reserve currency—although it says it will do nothing actively to encourage such holdings—and has informed commercial banks that it would like to see a gradual increase in offshore lending in yen rather than dollars.

Differences between the interest rate structure of Japan and overseas markets—not to mention the overall ceilings imposed on total lendings of Japanese banks—at present rule out any rapid increase in the internationalisation of the yen. But while progress may be very slow, the sheer size of Japan's economy and of its trade makes the trend look inevitable in coming years.

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Ceilings

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The second development once again, a long-term one—that Japanese banks are expected to mount intensive efforts to establish a deposit base overseas to escape from their overwhelming reliance on borrowings in the Eurodollar market.

The Bank of Tokyo has had some success in building deposits in California, where one of its subsidiaries, more than one with Southern California First National Bank form California First Bank. Although it will obviously be a long uphill struggle, of Japanese banks are also showing signs of trying to follow the Bank of Tokyo's lead.

Simon T

JAPAN ON THE HOME FRONT

Resilience to pressure

At the same time amounted to \$5.3bn. in surplus.

As matters stand, it appears likely that fiscal 1976, a term ending on March 31, 1977, will see Japan's Gross National Product rising from last fiscal year's 2 per cent. in real terms to something between 5 and 6 per cent. Thanks to steadily rising exports, revival of foreign investment in Japan, flotation of Japanese corporate and bank bonds overseas, and support of buying of dollars by the Bank of Japan, the country's foreign exchange reserves are now comfortably around \$14bn.

This demonstration of the enduring quality of Japan, resulting to a large extent from the draconian measures recently pursued unstintingly by the Government of Prime Minister Takeo Miki and the Bank of Japan, has so encouraged the nation's big corporations that they are now determined to reduce their rate of dependence on bank loans as a means of raising funds. This is seen as a way greatly to improve the ability of the companies to meet future economic recessions and as the best approach to the new era of low growth.

Unfortunately for Japan's banks, borrowings by the nation's major companies probably will be restricted under the existing regulations of large supply-demand situation concerning funds. Although the

ties no longer favour the extremely low level of owned capital, as opposed to borrowed capital, of the country's major corporations. The average ratio of owned capital to borrowed capital declined to around 14 per cent. in 1974—half the level of the early postwar years.

As the Japanese companies gradually moved to build up their capital, overall deposits with the 13 city banks in the September-March term of 1975 and 1976 expanded by an average of 8.7 per cent. over the previous six months. This rate was more than double the 4.1 per cent. rate of the similar half-year period of 1973 and 1974. But the steady downswing of interest rates has also resulted in an upsurge in new loans of 20.4 per cent.

Along with these rising bank deposits and business loans has come increasing pressure on the Finance Ministry and the bank to central bank for less control over interest rates of the commercial bankers and more official encouragement of competition, especially on deposits.

The Committee on Financial System Research, a consultative body of the Ministry of Finance, recently advised that the Government should revise its dictated rates more frequently in keeping with the existing regulations of large supply-demand situation concerning funds. Although the

recommenda-tion elicited little or no response from the financial authorities, it was considered a step in the right direction even that the move was advocated by a responsible and often influential organisation.

In another unusual move the Finance Ministry has informed the nation's commercial banks that they must not do business abroad other than in those areas involving financial or related services. This was clearly seen as evidence of serious concern over a possible recurrence of overseas bank failures involving Japanese financial institutions.

The directive followed by a few weeks the management failure of a Brazilian investment bank in which the Bank of Tokyo had a 30 per cent. equity stake. The Brazilian Finance Ministry and the bank were ordered to suspend central bank for less control over interest rates of the commercial bankers and more official encouragement of competition, especially on deposits.

Currently, the number of overseas branches and affiliates number approximately 370. In their own defence, executives of the domestic headquarters of these overseas institutions blame insufficient surveys of enterprises abroad among other

reasons. Yet officials of the Ministry of Tokyo and the Finance Ministry tend to feel that the soundness of the country's overseas branches and subsidiaries is lacking significant experience in handling the involvements presently encountering.

So Japan has become increasingly important for the nation's commercial banks and global operations of internationally-minded banks. Particularly since a fairly number of Japanese banks not so experienced as mediators for the global flow of money as are many of the foreign banking institutions already established in the country. This situation has resulted in the gradual strengthening of the relationships between Japanese and the foreign banks, and the foreign banks, both now in the past, has been the li-

Only a few of the Japanese corporations, usually in return for certain favours, will time to time place yen for the foreign banking institutions located in Japan. For all it remains the strictly foreign companies which provide yen base on the whole, so it is.

Without a yen deposit by

CONTINUED ON NEXT PAGE

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BEFORE U.S. THIS NEW

WORLD BANKING XXIX

U.S. BANKS ABROAD

Care and consolidation

IT HAS not been the easiest year for American banks overseas. Although they have weathered the worst of the world recession surprisingly well and coped successfully with many of the problems it has brought with it, some remain and Congress continues to cast a wary eye over their foreign operations and is bound, most observers believe, to seek greater control over them in the future.

The aftermath of the recession has brought real estate losses, the problem of loans to the over-supplied tanker market and the vexed issue of so-called "classified" or questionable loans to overseas countries. In the past two years bankers have also been somewhat chastened by foreign exchange losses, and occasional bank failures like that of Franklin National Bank. There have also been the well-publicised international problems of Marine Midland Bank.

Of the other hand many of the U.S. banks operating overseas have welcomed the past two years as a period of consolidation following the heady days of the late '60s and early '70s when they expanded, particularly in Europe, at a remarkable rate. Many of the U.S. banks in London and elsewhere, have become a little more cautious

eschewing risky loans in favour of business with well-established clients.

Overseas branches—and the consortium banks that some U.S. banks have set up—have turned to syndicating big quality, privately-placed loans for set fees and this still represents the biggest business for many American overseas merchant banks. They have also been heavily involved in selling financial advice, successfully underwriting international bond issues and, increasingly, servicing their clients from the U.S.

Banks in states like Texas, which are closely involved with oil exploration around the world, have worked hard to service their state clients as they expand their international business. This has inevitably brought them into contact with new kinds of business. Some banking sources concede that there is a little less of that kind of business around at the moment, chiefly because American companies have pulled in their worldwide horns in the past two years and there has been much less new U.S. industrial investment overseas than in the previous few years.

As the recession ends this may change but many experts in the U.S. think it will be some time before it does, principally because the opportunities in the

U.S. are for the moment more enticing. There are some fears that Europe in particular may no longer be politically as stable as in the 60s.

American banks have however remained very active in the Eurodollar market which is now reported to be in good shape after a somewhat difficult period. The ending of the interest equalisation tax, which many thought would attract many dollars back to the U.S. and dent London's pre-eminence at the centre of the market, has so far made very little difference according to many observers. They also note that if the U.S. economy continues to revive it will not be long before the U.S. trade balance moves into deficit again and the country is again "exporting" dollars.

Concern

But if the well-established Eurodollar market has proved resilient, bankers have not been able to hide their concern about some of the international loans. Attention was focused on the problem earlier this year by a series of articles in both the Washington Post and the New York Times which purported to show that many of the country's largest banks had too great a proportion of their assets tied

up in potentially risky loans.

At the beginning of the year, Chase Manhattan had some 10 per cent. of its assets tied up in loans to so-called "Third World" countries and many of the other large banks are also heavily involved in similar ventures. The newspaper articles were badly received by the banking community which argued fiercely that some of the loans reported as "classified" by the regulatory authorities were perfectly sound and that most of them were virtually certain to be paid back. International bankers pointed out with some force that international loans have traditionally been a better risk than domestic ones but they concede that towards the end of this year, when a number of loans come due for repayment in a bunch, there may be problems.

There has been some concern in Wall Street about a variety of countries including Italy, Brazil, Mexico, South Korea and Zambia, Chile and Peru. These last three copper producers have been hard hit by the recession but as world demand picks up in the next few months the situation is expected to ease. Brazil, Mexico and South Korea have also been badly affected by the coincidence of the rise in oil prices and the recession but all have good repayment records and as world economic activity gathers speed again fears about their ability to meet their repayment schedules are likely to recede.

Nevertheless there have been clear signs that U.S. banks have become a good deal more cautious in the past year. Partly this springs from a desire to avoid the problems of a bank like Marine Midland which saw its assets tumble from \$1.1bn. in 1973 to \$200m. in 1976. All the publicity about over-extension has had another unwelcome side effect as far as the banks are concerned. It has focused attention once again in Congress on the much discussed issue of how much control U.S. regulatory agencies should be able to exercise over foreign branches of U.S. banks. Ever since the larger U.S. banks woke up to the fact that the Glass-Steagall Act does not apply overseas, they have rejoined in the freedom that they have to conduct various kinds of business in, say, London that they are not allowed to conduct in New York.

In the past year there have been a number of Congressional initiatives, some of them emanating from the House Banking Committee, which have

aimed to define the range of activities that U.S. banks should be allowed to conduct overseas. They have also dealt with the question of whether overseas subsidiaries are adequately capitalised and who is the effective lender of last resort. At least one Congressional committee is also busily engaged in trying to find out if U.S. banks have been systematically and possibly dangerously over-extended in the Euromarkets in the past few years.

Earlier this year for instance, Rep. Henry Reuss, the chairman of the powerful House Banking Committee, proposed sweeping changes in the bank regulatory

agencies in Washington and the banks overseas will no doubt U.S. banks and said it was well established, among other things, the Federal Reserve Board's report which Commission which would have American banks have been shows a total of \$14.5bn. on deposit.

Overseas, intensive lobbying by the banking industry has apparently prompted Rep. Reuss to abandon some of these ideas for the moment because they would have little chance of getting the approval of the present Congress. But if the Democrats win the election in November there has gone some way to reducing the pressure for banks that some major American banks are vulnerable to sudden Arab withdrawals of short term money. As the inflation rate subsidies most observers expect Arab investors to be increasingly interested in longer term maturities.

One indication, however, of the continuing delicacy of the relationship between American banks and some OPEC nations came earlier this month when the Kuwait Finance Minister threatened that his country would withdraw all its deposits from U.S. banks if their extent was revealed to Congressional investigators. The Senate Sub-committee on Multinationals Government debt and the U.S. ing the individual deposits of

David Bell

Japan

CONTINUED FROM PREVIOUS PAGE

any size or importance, therefore, a serious handicap exists and to compensate for this the foreign bankers must raise funds under the yen shift limit system. The Bank of Japan and the Ministry of Finance authorise each foreign banking institution to operate within a certain yen shift limit or swap limit. This permits each bank to induct foreign funds—usually Eurodollars.

In almost all cases, the foreign bank brings in the Eurodollars, converts them straight away into yen, and then enters into a forward contract because it will have to repay dollars and it does not want to assume an exchange risk. Of course there is also the cost factor involved in borrowing the Eurodollars and there is too, at present, a premium on the forward contract.

The Japanese bankers have adopted a system which allows them to handle all the bills each month for their customers by

using computers. In addition, a great many Japanese banks provide cash pickup and delivery for even small-scale retail operations, sometimes on a twice-a-day basis. And there are many similar services which Japan's banks offer and which the foreign-owned banks simply cannot afford to duplicate.

So the foreign banks must depend on the swap limit system to obtain necessary funding. Each foreign banking institution is allowed to induct only so much money—it varies from bank to bank—and usually about once each year the central bank at its own discretion and without any warning increases the amount. Most banks, knowing that not to use the entire fund allotted to them might well result in a reduction next time around, tend up to the maximum.

At present, under Ministry of Finance guidelines, the interest spread over the London interbank offering rate is restricted

to 1 per cent. Nevertheless, what actually occurs in most such arrangements is that the borrowing company decides—perhaps out of goodwill—to deposit certain sums of yen with the bank intending to make the impact loan which naturally has the effect of raising the rate slightly.

Since such practice is outside the yen shift limit, it becomes especially attractive. The foreign bankers not only make their spread but they also obtain larger yen deposits. Additionally, the extra yen deposited is usually lumped up in the first year, with the interest rate averaged out over the five-year term. This helps to provide yen funds for further lending. Often enough, the bank providing the impact loan tries to favour Japanese corporations which might provide business elsewhere in some other part of the world. It all tends to work out fairly well.

A. E. Cullison

Banking Committee, which have

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WORLD BANKING XXX

COMECON

Heavy borrowers

EUROCURRENCY BORROWINGS

January, 1975-April, 1976	
Bulgaria	240m.
Cuba	250m.
Czechoslovakia	60m.
GDR	265m.
Hungary	250m.
IIB*	1,030m.
Soviet Union	650m.
Poland	590m.
Romania	50m.

Total 2,225m.

* The IIB and the Soviet Union are usually rated as the same borrower.

Source: Lloyd's Bank International.

presumably, in the demand for investment finance. There will of course, be projects outside the Plans to be financed with foreign borrowing. But the projects will also have to be serviced with internal resources, and manpower resources, which in all countries, are in critical short supply. The number of these projects is therefore likely to be small.

The Plans also lay heavy emphasis on export growth as the need to make the economy more responsive to world markets, which could also lead to a drop in demand for deficit financing. However, this depends on a marked improvement in Comecon's export record, which can by no means be relied on.

David Lascelli

East Europe Correspondent

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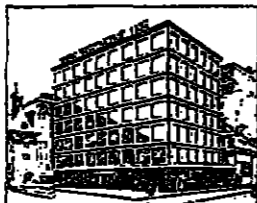
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COMECON'S ROLE as a fast-growing borrower in Western capital markets showed no sign of slackening off in the past 12 months. Its forays are not only more frequent: the amounts being borrowed are also creeping up. And every member of the grouping except Mongolia has now taken a loan of some kind. But while this has proved profitable—in most cases—for Western banks, the future is shrouded in some uncertainty, partly because more questions are being asked about Comecon members (which do not publish details of their balance of payments), partly because Comecon itself seems to be in the throes of revising its economic policy.

Since January, 1975, Comecon is estimated to have borrowed over \$3bn. on the Eurocurrency markets, three times as much as it borrowed over the previous comparable period. By far the largest amount (over \$1bn.) was taken up by the Comecon International Investment Bank (IIB) itself, the main source of hard currency funds for the groupings capital projects. This includes Comecon's largest single borrowing yet—\$600m. to be used for the Orenburg pipeline linking the Ural gasfields with the East European gas network. Although the Russians took the unusual step of revealing much previously secret information about this project (which is vital to future energy plans) the loan was only put together with some difficulty. Its size was partly to

blame, also the terms 'a tight 1½ per cent. above LIBOR for six years': so was the timing, because two other large loans had only just gone through. As expected, the Russians continued to borrow heavily through the Foreign Trade Bank (Vneshtorgbank). Most of the \$650m. they raised will have gone to cover their mounting trade deficit with the hard currency area. Nevertheless, their financing activities have been puzzling Western observers. Gold sales last year at 140 tons were much lower than expected, particularly in view of the heavy cost of grain imports. It is possible that they are meeting most of their needs privately through inter-bank deals and short-term grain credits from U.S. banks. Even so, Vneshtorgbank is widely expected to return to the market before the end of the year.

The third largest borrower was Poland, whose active import policies have made it the most heavily indebted member of Comecon. The Finance Minister revealed last year that the country's debt service ratio was around 22 per cent., and other Polish sources have confirmed a total debt of around \$6bn. Poland is still picking up loans here and there. But judging by the new Five-Year Plan, investment activity will slow down in the coming years, and the emphasis will switch to exports.

Romania made a sudden appearance at the beginning of this year and borrowed \$30m., fees. Apart from Czechoslovakia, which was able to endurocurrency markets. Among negotiate similar rates as a new comer, the rest of Comecon is surprised many people, could be on 1½ per cent. or 1½ per cent. growing difficulties with the in the case of frequent balance of payments (exports rowers like Poland and have not risen rapidly despite Bulgaria.

Romania managed to negotiate 1½ per cent., but although its credit rating is good, many bankers feel it should have paid more than this, and it may not manage a repeat performance. The achievement by many U.S. banks of their lending ceilings for Comecon and the resulting diversion of loans to European banks has also tended to tighten supplies.

Another factor which will increasingly affect lending policy is disclosure. Although the East Europeans are coming to terms with this (the Orenburg loan being a case in point), most borrowing is still put to undisclosed uses. While this is of no great importance so long as Comecon maintains its first-class repayment record, there is mounting concern in Western financial circles about Comecon's export prospects, and many bankers would feel easier if they knew how the proposed investment was to recoup the hard currency outlay.

But judging by the new Five Year Plans, which have all now been published, at least in draft form, these difficulties could be resolved by a slackening in the pace of Comecon borrowing. Except for Romania and Bulgaria, all the plans foreshadow more expensive than this, or a falling off in the rate of in-carry split rates and heavier vestment growth, and therefore,

Exceeds

The result of this large volume of loans is that Comecon's share of world borrowing now exceeds its share of world trade, having been a lot less in the early 1970s. This has gradually pushed up the interest rates, and made bankers keener to know where the money is going.

The best borrower is still the Soviet Union with a margin of 1½ per cent. over LIBOR, but the feeling is growing that future loans will have to be more expensive than this, or a falling off in the rate of in-carry split rates and heavier vestment growth, and therefore,

YUGOSLAVIA
Reforms under way

THE YUGOSLAV banking system is currently in the throes of reform, partly under the long-drawn-out process that began with the constitutional reforms of 1974, but partly in the light of new thinking about their internal roles and links with foreign banking systems. One of the ideas being discussed at the moment, for instance, is whether to permit foreign banks to set up offices in Yugoslavia.

The internal reforms have mostly to do with shaping new relationships between banks and their depositors. The idea is that banks should act as channels for the resources of the basic organisations of associated labour (now the country's basic work and economic unit) which are members of them. The banks will pool these resources and use them for purposes set by their members and not by the bank directors or staff, who are seen as experts acting in the service of the bank's members.

In principle, banks can only accept deposits if they can be put to a definite purpose agreed by the members. However, exceptions will be allowed for deposits made to secure their safety or to earn interest, organisations which have though such depositors will also eventually have a say in how the money is to be used. At the same time, banks will issue securities only in order to obtain resources for their members, an exception being when one enterprise issues short-term securities in order to maintain liquidity. The same will be true of credits: a bank will borrow only on behalf of a client.

A key element in the future banking system—and a Bill of this is being drafted—will be called internal banks. It will be a network of banks, Westerners these will look like private banks belonging to companies or firms. In practice they will be formed by safety or to earn interest, organisations which have though such depositors will also eventually have a say in how the money is to be used. At the same time, banks will issue securities only in order to obtain resources for their members, an exception being when one enterprise issues short-term securities in order to maintain liquidity. The same will be true of credits: a bank will borrow only on behalf of a client.

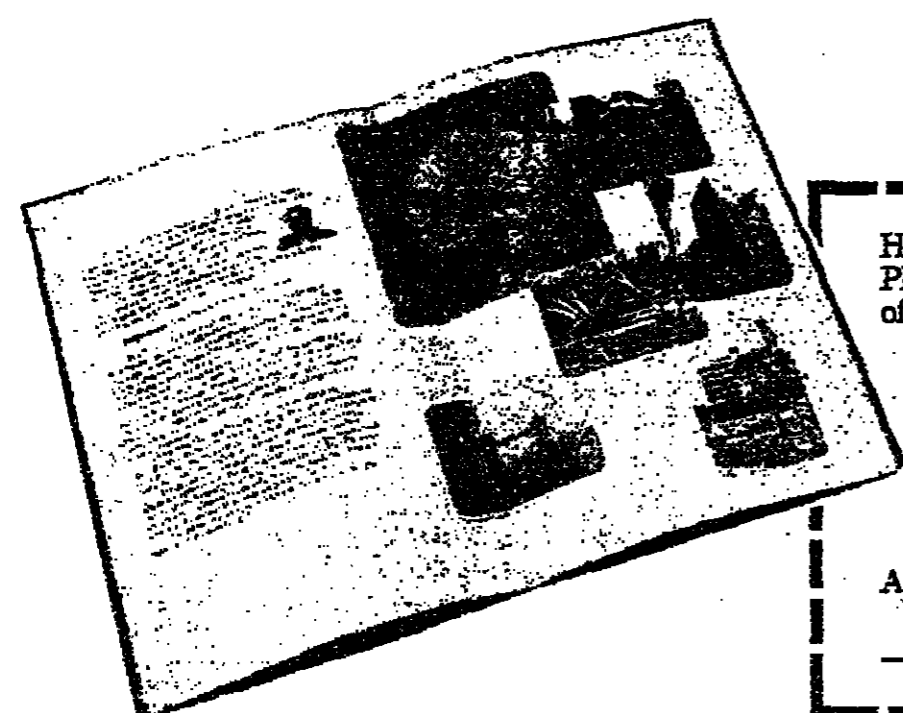
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WORLD BANKING XXXI

ISRAEL

Inflation threat

RECENT RESULTS of the Israeli commercial banks have been remarkably good—though more than two-thirds of pre-tax profits are being creamed off by the Treasury. The banking system, along with the entire economy, is at present facing a difficult period of transition. After two decades of rapid and almost continuous expansion, a significant slowdown in economic activity has set in, a far reflected by a drop in new investment (in real terms), particularly foreign, and by a sharp drop in the previously high rate of growth of GNP.

This slackening is, however, accompanied by a steep rate of inflation. Fed by the now monthly—creeping devaluations and Government deficit spending, on a large scale, prices are moving upwards fast. The cost of living index jumped by nearly 50 per cent. in 1974; this outrageous rate slowed down to about 25 per cent. in 1975, but is currently running again at 30 per cent.

The creeping devaluations which were introduced in June, 1975, have replaced the former pegging of the Israeli pound to the U.S. dollar for long periods, a system which had necessitated massive devaluations at longer intervals. The new method provides for monthly devaluations of up to 2 per cent. An additional devaluation of 10 per cent. was effected in September, 1975. Together they upped the amount of Israeli pounds needed to buy one U.S. dollar from 128 in early 1975 to 157.52 to-day. Travellers requiring a foreign exchange allowance pay a 15 per cent. premium while the rate for dollars for the purchase of foreign securities, which is regulated by supply and demand, has been hovering above the 159 level for some time.

The principal aim of the system of creeping devaluation is to defend importers from a strengthening of the dollar and from the impact of domestic inflation. It should increase the profitability of exports and thus enable export industries to com-

Narrowing

The initial results of the system of creeping devaluation are considered encouraging. Exports are on the increase, private imports have slowed down, and the trade gap is narrowing.

But the movement in the right direction is a slow one. The deficit in the current account balance of payments (around \$8bn.) which has until now been covered by unilateral payments from abroad (restitution and pensions from Germany, gifts, contributions by world Jewry, grants in aid and, last but not least, foreign loans) remains a major problem.

The tightening of American financial assistance, which now seems likely, may have a serious impact on the Israeli economy. Foreign debt, expected to reach \$9bn. by end 1976, is putting an ever-increasing strain on the budget, with foreign debt service and retirement accounting for no less than 21 per cent. of total expenditure.

Banking in this rather nervous general economic atmosphere has not been easy. The continuous inflation has, of course, diminished the risk of lending money. It has, however, also made it more difficult

to attract normal bank deposits. Nevertheless, the Israeli commercial banks managed to obtain a three-year expansion rate of between 15 and 25 per cent., and on the whole very satisfactory profits.

The secret of this remarkable achievement in a near stagnant economy is not hard to find. There is no real competition in the banking field in Israel. The "Big Three" dominate the financial scene. Bank Leumi Le-Israel, Bank Hapoalim and the Israel Discount Bank among them share something like 80 per cent. of all banking transactions.

Only the Israel Discount Bank is fully privately owned, although the shares of all three banks are quoted on the tiny Tel-Aviv Stock Exchange. Bank Leumi is controlled by the Jewish Agency for Israel, whereas the Bank Hapoalim is the financial instrument of the trade union movement. There is no great competition among the "big three." On the contrary, many understandings exist between the general managements of the Israeli banking giants.

All three banks operate several other banks under other names, safeguarding the illusion that the customer is dealing with a medium-sized institution which provides close customer contact. Substantial outlays for advertising are aimed at encouraging savings and keeping up appearances of real rivalry.

The steep inflation rate induced the monetary authorities to do the utmost to keep bank credit in check, but the demand for bank loans continues unabated—small wonder in view of the persistent rise in prices. The central bank imposes severe liquidity regulations, forcing the banks to keep a substantial part of their deposits frozen.

Heavy fines have to be paid in the case of non-compliance with these regulations, in order to deter banks from increasing their credit facilities. On the other hand, the Central Bank agreed to let the banks allocate a rather large proportion of their resources to Government-directed credits. The amount of credit available to the free enterprise sector has thereby been severely limited. The interest rate for prime credit hovers around 30 per cent. per annum, rising to 45 per cent. when credit limits are exceeded.

In these circumstances money lending proved to be a profitable business despite occasional heavy fines payable by the banks for overstepping the liquidity rules imposed by the central bank. The banks have been criticised severely for paying too

high salaries to their staff and for all that making too much profit. This understandable criticism does not take sufficiently into account the strong bargaining position of the well organised bank employees, as well as the necessity of adding substantial amounts to reserves in unstable economic conditions.

The Government, which plays a dominant role in the money and capital markets, has recently restricted the profits the banks receive on the important savings schemes they sell on behalf of the State. These savings schemes, all linked to the cost-of-living index with regard to capital as well as interest, are very popular. The linking system itself, which is widespread in Israel and applies partly to wages and, until recently, fully to all debentures, adds a heavy burden to Government finances. Inflation does not, as in most other countries, decrease the Government debt.

A feeble attempt is being made to break the vicious circle of indexation. Government bonds now issued are only 90 per cent. linked. It is the intention to decrease this percentage gradually to 70 per cent. within a two-year period. Heavier taxes are being levied on the banks, but the Minister of Finance, Mr. Y. Rabinowitz, is stepping warily so as not to endanger the capital market.

Services

A most interesting development of Israeli banking is the export of its services. Foreign banks formerly operated en masse in Palestine, and, after the founding of the State of Israel continued for a while. But recent decades have witnessed the disappearance of all foreign banks one after the other.

The ties with Britain in this respect were almost entirely cut after the debacle of the Israel British Bank. Barclays, formerly an important banking institution in Israel, has its name still mentioned on the facade of the Barclays Discount Bank, but this is now managed by the Israel Discount Bank, albeit assisted by British resources.

In a movement in the opposite direction the Israeli Big Three have built up a sizeable network of branches and offices abroad, in the Americas as well as in Europe. Although these branches cater especially for companies doing business with Israel and are favoured mostly by Jewish customers, they have in some cases developed into important banking institutions in their own right.

Lore Daniel

Yugoslavia

CONTINUED FROM PREVIOUS PAGE

The next stage up will be so-called basic banks, which resemble commercial banks. These will also pool resources belonging to basic organisations, but will be able to perform various credit, monetary and other banking operations. They will also have reserve funds amounting to at least 5 per cent. of their loans. Basic banks will be allowed to get together for certain purposes like bailing each other out, dealing in securities, foreign exchange and international payments. These "united banks" will not deal directly with either firms or the public (the basic banks must do that), and will not therefore have branches, though they may have representative offices at home and abroad.

Among other ideas being considered are industry-wide banks, proposed by Dr. Ivo Perisin, former Governor of the Central Bank, to take care of the needs of particular industries.

Liquidity

Another current preoccupation is the improvement of company liquidity. Under new legislation, all commercial transactions will have to be paid for either by cheque, bill of exchange, irrevocable letter of credit, or other guarantees readily convertible into money. This requirement greatly increases the role of banks within the system (since they will be instrumental in breaking the chain of credit buying and selling which threatened to undermine the financial foundations of the business community). Their power will lie in their ability to accept or refuse bills of exchange, though policy will be decided by their members and not by the staff.

Acceptances will be discounted and rediscounted, and in the end it is expected that a market will be created for them, probably easing the money supply in the process.

All these measures, it is hoped, will create a nationwide

THE BIG TEN BANKS

Total balances at December 31, 1975—YD bn.

1 Beogradsk Banka, Belgrade	87.8
2 Ljubljanska Banka, Ljubljana	68.8
3 Jugoslovenska Investiciona Banka, Belgrade	60.1
4 Jugobanka, Belgrade	55.8
5 Privredna Banka, Sarajevo	46.8
6 Stopanska Banka, Skopje	35.2
7 Kreditna Banka, Zagreb	29.9
8 Kosovska Banka, Pristina	20.0
9 Vojvodjanska Banka, Novi Sad	20.0
10 Investiciona Banka, Titograd	11.5

market which will pull the country together financially, and help the banking system adapt itself to the market mechanism. There is also an intention to establish specialised banks. The proposal that the Export Credit and Insurance Fund should be turned into an Export Bank is still under consideration. This would enable it to marshal greater resources to finance Yugoslav exports (the absence of such facilities being a major brake on Yugoslavia's foreign trade). The new regulations will also permit Yugoslav banks to establish financial institutions abroad, by themselves or jointly with other foreign banks or partners.

The aim being to attract foreign resources into Yugoslavia, proposals to permit foreign banks and other financial institutions to open up representative offices in Yugoslavia is also under consideration, a move that would conform to the Helsinki Declaration.

Aleksandar Labl
Belgrade Correspondent

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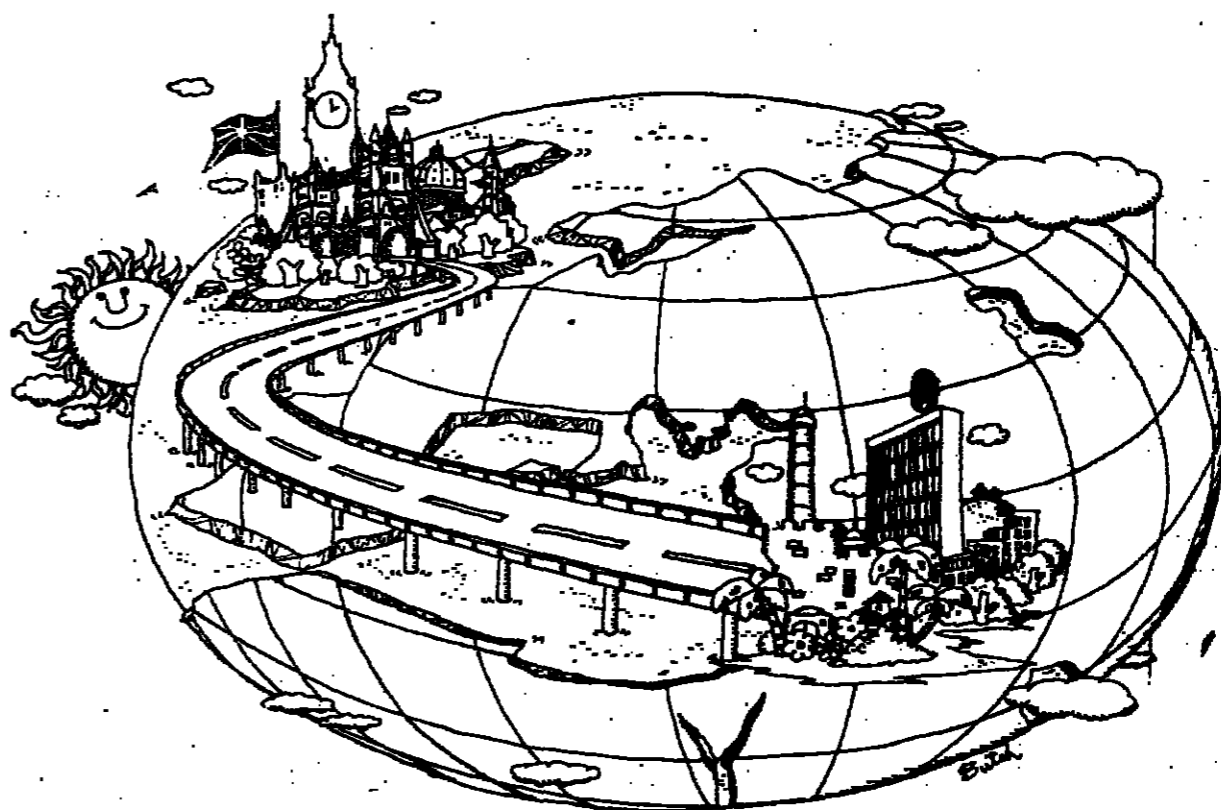
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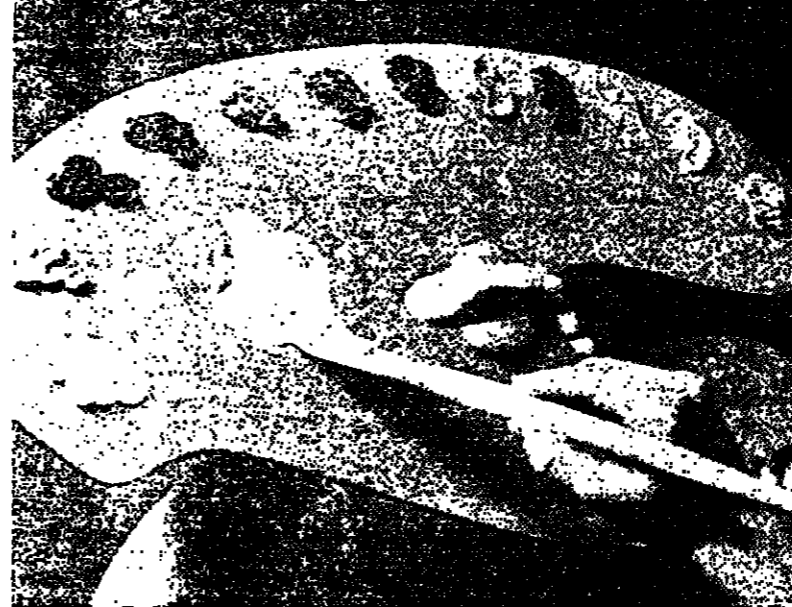
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WORLD BANKING XXXII

THE FAR EAST

Trade prospects better

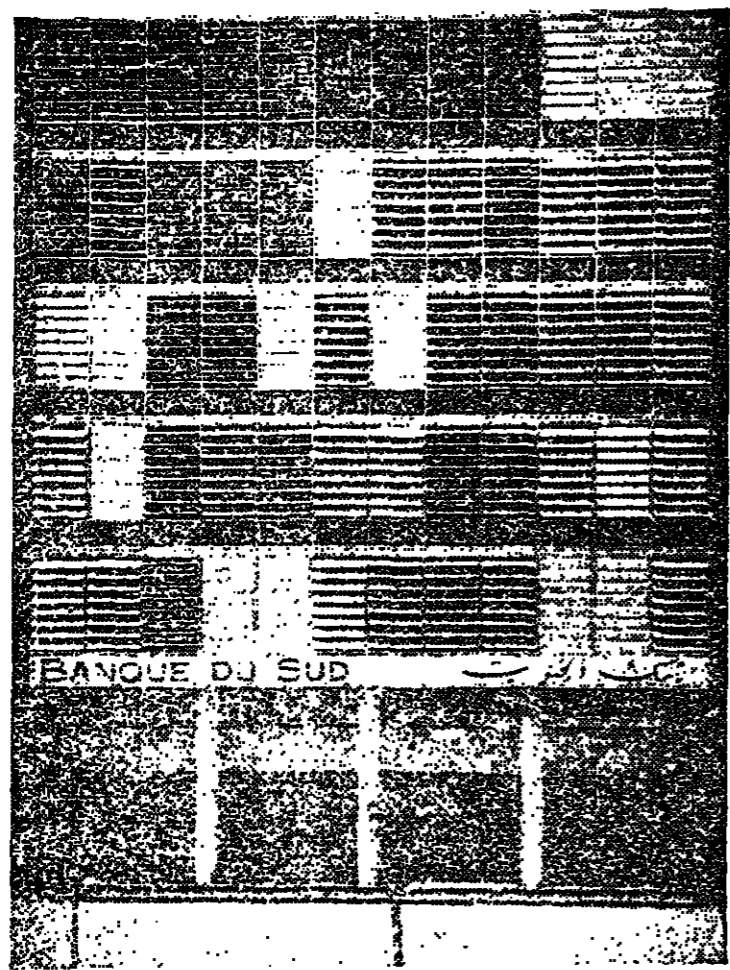


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THE SMALLER countries of the Far East have begun to recover from the world recession which so badly hit their terms of trade. After last year's average real economic growth rate of about 4 per cent., the best current estimate for 1976 is 6½ to 7 per cent.

Inflation has, however, been brought down to manageable levels. Even in Indonesia, which used to be the byword for sliding money values, the rise in prices last year was halved to 19 per cent. In the other countries (Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand) the average rate of inflation last year was between 5 and 6 per cent.

Trade has suffered from the recession in Western markets as well as the falling world prices for most of this region's primary commodities. Only in the past few weeks has a turnaround been discernible in the deterioration of terms of trade.

In Malaysia, which has a fairly representative mix of export and import commodities, the terms of trade fell by 18 per cent. last year. Exports were down in all countries save South Korea, where the momentum of manufacturing exports was maintained. But the prospects for the current year are much better, and further expansion of financial services in the region is now being resumed.

South Korea is showing every sign of being the next "miracle" economy after Japan. It had the highest growth in the region last year (7 per cent.)

and expects a similar advance this year.

This steady growth is based neither on primary commodities nor merely on such simple manufactures as the textiles and electronics which are now proliferating in South-East Asia as major export lines. It is rather the result of a diversified industrial development focused on heavy industry and chemicals. South Korea will be the first Asian developing country to become an important motor car exporter.

This has not been achieved in the context of the larger oil import bill, without financial anxieties. A deficit in the current balance of payments in the order of \$1.7bn. was expected last year, although the reserves have expanded to \$1.4bn. as a result of the continued inflow of investment capital.

South Korean exports grew by 13 per cent. last year to reach \$5.4bn. To take only one of its targets for 1978, electronics exports are expected to jump by one-third to a value of \$710m.

One consequence of this strong growth is the growing interest of British and other European banks, in South Korea. Negotiations are advanced for a new 50-50 Korean-British merchant bank in which Lazard Brothers will be a major partner.

On a lesser scale a similar story can be told about Taiwan, where a textiles-led recovery is now in train, while solid work goes on in the ten major

infrastructure projects which Premier Chiang Ching-kuo has claimed will transform his tight little island into a developed nation by 1980.

Textiles accounted for almost one-third of 1975 exports, which were down by 6 per cent. to \$5.3bn. There is some concern over the poor treatment given to Taiwan by the EEC over textile quotas, but otherwise the growing diplomatic isolation of the island has not appeared to affect its economy.

Forecast

New foreign investment continues, and trade with Japan goes on despite the lack of official government relations. The Gross Domestic Product grew by only 2½ per cent. last year, but the 1978 forecast is for 6 to 7 per cent. Consumer prices rose by only 5 per cent. last year. The new budget for the coming fiscal year is for expenditure 43 per cent. higher than in the current year.

Moving down to South East Asia, the picture is more fully coloured by the setback in most primary commodity prices last year. Rubber, timber, tin and palm oil all lost ground.

Indonesia had based its development strategy on oil exports giving it immunity from the giving of a price slide. But the Japanese recession put paid to those hopes. Indonesian crude oil output dropped last year from its 1974 peak of 1.47m. barrels a day to 1.1m. Since oil

revenues account for almost 60 per cent. of Government income, this spell of disaster for Indonesia's development plans. Only last March did the level of production, responding to the U.S. market, reach a new record of 1.5m. barrels a day.

All this was compounded by the near-bankruptcy of Indonesia's national oil enterprise, Pertamina. General Ibnu Sutowo, who had presided over Pertamina's advance from a very small start, was forced to step down in March when debts were revealed variously estimated between \$2.5bn. and \$9bn. The Government put in a new management and took over responsibility for the foreign debt, at some cost to its reserves (which fell by 45 per cent. last year to \$1.2bn.). The trade deficit for the current fiscal year is put, coincidentally, at the same figure of \$1.2bn.

The budget for next year (1978-79) is 29 per cent. higher, based largely on the hope of milking the foreign oil corporations of more of their profits and also of higher aid receipts. The Government had to draw on the international banking Import Bank and hope community to survive its crisis, borrowing a total of \$1bn. from

two syndicates led by Morgan Guaranty of New York and from the Bank of Tokyo.

S. G. Warburg, Lazard Freres and Kuhn Loeb were involved in advising the Government on overcoming its twin difficulties of trade trends and financial incompetence. A new loan for Planters Products Bank Consortium.

In the course of the budget debate in March, the Finance Minister, Mr. Ali Wardhana, revealed new tax reductions and exemptions, as well as investment tax holidays, to encourage domestic savings and capital investment—including foreign investment.

Malaysia also went to the Eurodollar market for loans aggregating \$785m. in three syndication packages led by Chase Manhattan and Chemical Bank, to help finance its larger trade deficit. External loan receipts reached last year to reach \$440m. This was in the knowledge that Malaysia had become an oil exporter.

The real growth in this resilient economy in 1975 was only 3 per cent., after 7 per cent. in 1974. The Third Five-Year Plan which should have gone into operation in January was twice postponed—once to be scaled down because of the poor trade-outturn, then again to be partially reinstated when signs of recovery began to be observed from February onwards. The original plan envisaged 8 per cent. real growth all round in the coming five years, but double that rate in the manufacturing sector. Manufacturing has inevitably slid down over the past year.

Foreign investors were a what shaken by the Malay Government's less welcoming attitude, in which Shell Exxon were first exposed, arguments over oil exploration contracts. The new policy is to be that only companies obliged to use imported equipment and geared to the market will be allowed to main under full foreign control.

The Central Bank introduced this year a policy of encouraging mergers among local banks to strengthen their internal competitiveness. Half of the locally owned banks have below \$40m.

The Philippines and Thailand have no oil production to alleviate falling export prices ending last year with deficits of \$1bn. and \$500m. respectively. In spite of this, the rate last year in Pre Marcos's New Society was a respectable 5½ per cent., and inghouse is to build a nuclear power generating plant with funds from the U.S. E on the international banking Import Bank and hope community to survive its crisis, borrowing a total of \$1bn. from

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GREECE

Record deposits

RESTRICTION of inflation to below 10 per cent. (it was 13.7 per cent. in 1975), and protection of monetary equilibrium—but without hindering economic activity through credit tightening—are the basic aims of the Greek Government's credit policy for 1976. According to Professor Xenophon Zolotas, Governor of the Bank of Greece, this policy is flexible enough to allow currency authorities to keep control over liquidity. Currency circulation is expected to increase this year by 12 per cent., while total credits should rise by 18 per cent.

In support of the Government's credit policy, a money market has been created at the Bank of Greece whose job it will be to help put to better use surplus funds acquired by commercial banks and to deal with the liquidity problems of these banks resulting from record private deposits. At the end of 1975, private deposits with commercial banks and special credit institutions totalled Drs.273.4bn. (£4bn.), compared with Drs.208.7bn. (£3.1bn.) a year earlier, and Drs.178bn. (£2.6bn.) at the end of 1973.

Interest rates on bank deposits (which are tax free) are 7.5 per cent. for savings deposits with commercial banks and 9 to 10 per cent. for time deposits. Sight deposits earn no interest.

One way of dealing with these surpluses has been the issue by several banks of one-year bond certificates at 10 per cent. tax-free interest. These bonds are automatically renewable for a further two years at the same interest rate. The issue of these bonds is planned to increase the amount of funds mobilised through the credit system and bring about a reallocation of available funds among the various financial institutions.

The Bank of Greece has also created a special fund which subsidises part of the interest rate on credits granted by commercial banks so that the latter may be encouraged to grant low-interest loans for productive investments and exports.

Total outstanding credits to the private sector at the end of November 1975 were Drs.292.7bn. (£4.3bn.). Of these Drs.129.5bn. (£1.9bn.) were to manufacturing. Drs.55.5bn. (£816m.) to agriculture, and the Drs.36.8bn. (£542m.) to housing. Bank of Greece raised serious suspicions that the banks were involved in major irregularities to ten per cent. in October, 1975. At the same time the cost of bank financing was lowered by half a point in most categories. Credits to industries for working capital now carry 12.5 per cent. interest and medium and long-term loans for fixed productive investments 17 per cent. Housing loans carry

interest between 8.5 and 10 per cent.

Under a new Government subsidy programme, designed to facilitate imports of capital equipment, companies operating in Greece, including foreign-owned subsidiaries, are eligible for low-interest loans. Banks are authorised to grant loans at an interest rate 2½ points lower than regular Drachma loans (with the balance covered by a State subsidy), provided the funds are raised abroad by the banks.

Greece's banking system is made up of the Bank of Greece, 10 Greek commercial banks and branch offices of 12 foreign commercial banks. The Bank of Greece has the exclusive right of issuing banknotes, controls currency circulation and foreign exchange, and supervises the implementation of decisions by the Currency Committee (the country's economic watchdog).

Controlled

The commercial banks are the indirectly State-controlled Bank of Greece and its affiliate the Traders' Credit Bank; the Andreades group composed of the Commercial Bank of Greece, the Ionian and Popular Bank of Greece, the Bank of Piraeus and the Bank of Attica; the Credit Bank controlled by the Costopoulos family and with an 18 per cent. share participation by Manufacturers Hanover Banking Corporation of New York; the General Hellenic Bank (formerly the Bank of the Army Share Fund); the recently revived Bank of Crete controlled by shipowner John Carras; and the Ergobank, the first bank (founded in November, 1973) with a broad base of about 2,000 founding partners, among them industrialists, traders, shipowners and professionals.

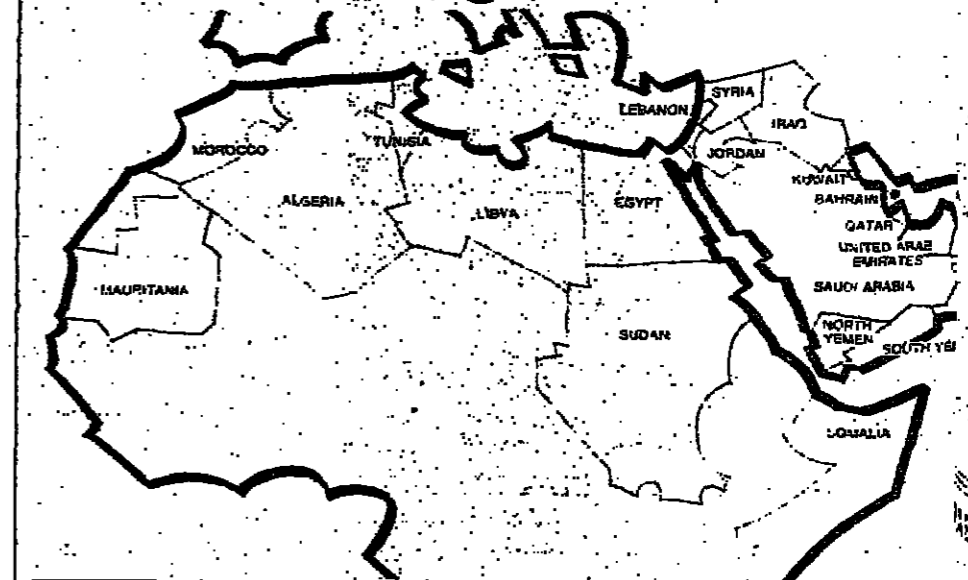
The Ergobank, none of whose shareholders is allowed to subscribe to more than 5 per cent. of its 800m. drachmas (£11.7m.) equity, has criticised the oligopolistic structure of the banking system in Greece. The National Bank of Greece, headed by Professor and Academician Angelos Angelopoulos, and the Andreades group account for almost 85 per cent. of total banking activity.

Last December Government commissioners were appointed to administer temporarily three banks of the Andreades group, after a routine check by the Drs.36.8bn. (£542m.) to housing. Bank of Greece raised serious suspicions that the banks were involved in major irregularities to ten per cent. in October, 1975. At the same time the cost of bank financing was lowered by half a point in most categories. Credits to industries for working capital now carry 12.5 per cent. interest and medium and long-term loans for fixed productive investments 17 per cent. Housing loans carry

that a draft Bill will be submitted to Parliament soon which will cause the majority of the shares of these banks presently controlled by 70-year-old banker-industrialist-shipowner Stratis Andreades, to revert to the State. The Bill would provide for an increase of the equity capital and the allocation of the new shares to public corporations or perhaps to State-controlled banks. If this happens, the State, which already directly or indirectly controls about 60 per cent. of the banking system, will obtain a firmer grip on commercial banks.

CONTINUED ON
NEXT PAGE

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ARAB WORLD

Subtle shifts in investment

WITH THE slack demand for alternative source of revenue for oil last year and the consequent fall in the producers' revenue, the lure of the Arab world for investors has been diminished. Certainly, the community might seem to have been diminished. Certainly, the volume of the collective surplus has been diminished. However, in a less dramatic situation the region continues to be one on which concentration is riveted, not the least because of the subtle changes in the currents followed by the petrodollars.

The volume of petrodollars seeking outlets elsewhere than their country of origin is still very substantial. But its movement has become more complex and interesting. For a start, among the handful of States generating an excess income of a kind that should be regarded as more than temporary there has been a pronounced shift towards investment in longer-term bonds and real assets—a process in which a select number of Western banks have necessarily been involved.

At the same time a bigger proportion of the surplus has been deployed towards the developing countries, particularly in the Arab world. In the aftermath of the oil crisis it was the prospect of and need for deposits which led international (and more parochial) foreign bankers to flock to the Middle East. Now, much greater absorption of petrodollars within the region has made their involvement in the region more imperative because of their customers' need to obtain a share of the world's fastest expanding market for products, technology and services.

With Iran feeling a financial squeeze and Venezuela embarking on major development commitments, the OPEC surplus has become very much an Arab one—concentrated on Saudi Arabia and Kuwait, with the United Arab Emirates (or more precisely Abu Dhabi) and Qatar also enjoying a more modest excess revenue of an enduring nature. Last year, after aid disbursements, Saudi Arabia would probably have had a surplus approaching \$20bn. for placement. Given the Kingdom's commitment to its ambitious plan to sign a significant portion of that surplus in the 12 months of the end of the year, the Government has considered a long-term reserve of all, even if in practice, it will be just that.

In the past year Kuwait would have been able to transfer \$3.5bn. to the investment fund which it is building up deliberately, and frankly, as an

abroad are believed to be in excess of \$40bn. and, according to one recent and apparently well-informed report, as much as \$45bn. There have been substantial and unpublicised contributions to the IMF and the World Bank, but also a big movement into corporate stocks and property.

In contrast to Saudi Arabia, liquidity held by Kuwait's Central Bank, as measured by the IMF, has for many years been limited to the pool of funds needed to pay for imports and has excluded the assets, which are convertible and would therefore be classed as short-term, in the State's general reserve. Begun in 1952 when the Kuwaiti Government opened its first dollar portfolio of equities and bonds with the First National City Bank, its funds handled by the Kuwait Ministry of Finance have risen from \$3bn. to \$12bn. in the past three years. A declining proportion of the total is accounted for by domestic investments.

There has been nothing recently to compare—in terms of headlines—with the purchase of St. Martin's Property Corporation or the stake in Daimler-Benz in 1974. But the Ministry of Finance has been steadily building up its ownership of Western equities. In 1975 four new portfolios—in France, Belgium, the Netherlands and Japan were added to the eight existing ones managed by Western banks. Investment in real estate was extended through funds managed by the Bank of America and Morgan Guaranty.

After very generous aid disbursements it now appears that Abu Dhabi was still able to transfer as much as \$500-600m. to its long-term investment portfolio which now must be valued at over \$2bn. Formerly handled by a London-based board it has now been placed under the direction of a new authority based in the state itself. The proportion of the total accounted for by equities is understood to be increasing. The policy of Qatar, too, has been that the state's investment board, assisted by Western institutions, should concentrate on growth and therefore would probably have been increasingly active in acquiring real assets. Its fund is thought to be worth \$1.5-2bn.

Kuwait has continued to participate heavily in bond issues. An indication of the State's placements can be seen from the fact that no less than \$1.5bn. of syndicated loans were either led or co-managed by its three leading financial institutions—the Kuwait Investment Company, the Kuwait Foreign Trading and

Contracting Company, and the applied for and received licences to operate there. Last month the UAE took its expected decision to allow a limited number of off-shore banks to start operating in the State.

Just how much in the way of petrodollar surpluses will be available for these off-shore banking units remains to be seen. The fact is that the producer governments control the great bulk of oil revenues and, except in Kuwait, the amount spreading to the private sector has been limited. Merchants accumulating fortunes have preferred to concentrate on investment at home, anyway.

Increased absorption of goods and services has been a much bigger cause of the reduction

Richard Johns

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Greece

CONTINUED FROM PREVIOUS PAGE

Apart from the Bank of Greece, the State owns five of the six special credit institutions which meet the credit requirements of special sectors of the economy. These are the Hellenic Industrial Development Bank, the Agricultural Bank of Greece, the National Mortgage Bank of Greece, the Postal Savings Bank, and the Consignments and Loans Fund. The sixth, the Mortgage Bank, belongs to the National Bank of Greece, itself indirectly controlled by the State.

The 12 foreign banks which have branches in Greece are: Algemene Bank Nederland, American Express Bank of America, Bank of Nova Scotia, Banque Internationale pour l'Afrique Occidentale, Chase Manhattan, Continental Illinois National Bank and Trust Co. of Chicago, First National Bank of Chicago, Citibank, Grindlays Bank, National Westminster Bank, and Williams and Glyn's Bank. At present these foreign banks handle about 11 per cent. of deposits and 16 per cent. of all credits with commercial banks in Greece.

There are also two investment banks, created by the major commercial banks with the participation of foreign banking institutions, whose principal objective is to provide long-term loans to Greek manufacturing, mining, tourist, shipping and exporting enterprises. These are the National Investment Bank for Industrial Development, founded by the National Bank of Greece, and the Investment Bank set up by the Commercial Bank of Greece. Both have American and European banks as minority shareholders.

To speed up the country's industrialization, in view of Greece's desire to become the tenth member of the EEC in the early 1980s, four State banks set up a consortium last December to take the initiative in sectors where private enterprise is not active, either because it does not have the required capital or because it hesitates to assume business risks and is willing to

meet the high cost of feasibility studies.

The government has repeatedly stated that the consortium, known as Elevme, is not intended to compete with private enterprise but, on the contrary, to complement it.

The consortium includes the Hellenic Industrial Development Bank, the National Bank of Greece, and its investment subsidiary the National Investment Bank for Industrial Development, and the National Mortgage Bank. Its share capital has been set at 3bn. drachmas (\$44.1m.).

Priority

The consortium plans to invest about \$750m. within the next five years to assist in the country's industrial development, with priority to be given to alumina and asbestos plants, the petrochemicals industry based on the production of existing oil refineries and oil deposits discovered off the North Aegean island of Thassos, the metallurgical industry, the exploitation of salt marshes near Messolonghi, West Central Greece, for the production of caustic soda and other chemical products, and the exploitation of lignite deposits in Northern Greece (other than for the fueling of electricity plants).

The consortium will set up Sociétés Anonymes whose shares will be transferable to industrialists if they wish to buy them or to individuals through the stock exchange. Moreover, during the period of implementation of an industrial project, private entrepreneurs will be able to purchase its ownership, provided they furnish the necessary guarantees regarding the completion and operation of the industrial plant. Entrepreneurs will also be able to participate from the outset in the equity of these companies. They may be joint ventures with the participation of foreign capital but always in Greek hands.

By Our Athens Correspondent



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WORLD BANKING XXXIV

ARAB CENTRES

Contenders for Beirut's role

IT IS PROBABLE that, even if the Lebanese civil war had not intervened, Beirut's predominance as the financial centre of the Arab world would have come under increasing challenge. Its position tended to be exaggerated, and the depth of the Lebanese crisis has given time for more thought about some of its disadvantages, especially in relation to its ability to handle the vastly increased oil revenues being generated after October, 1973.

Drawbacks include the conservative policy of the Central Bank in reaction to the intra-Bank crisis of 1966. The ban on the licensing of new banks, extended for another five years in 1973, meant that the only way foreign interests could enter the field was by buying into existing banks. Even with foreign participation, these still remained very much Lebanese in character.

The Central Bank also decreed that the volume of business to be allowed had to be determined in relation to the balance-sheet at the unrealistic end-1973 level. Charges were levied on all deposits, and it was difficult for banks to compete with other centres in the handling of non-resident deposits. On top of these considerations, the difference in time zones between Beirut and Europe is not big enough to create a significant gap in trading hours.

So other States were formulating ideas on how to attract regional business even before the civil strife in Lebanon flared up a year ago. Undeterred by not being an Arab nation, Iran was one of the first to plan actively its promotion as a regional capital market after 1973. Egypt began liberalising its economy and encouraging foreign banks in 1974. Bahrain's idea for offshore banking units (OBUs) germinated nearly a year before the formal announcement last September.

Bahrain has moved quickly in its attempt to establish a major market for non-resident funds. Already 32 banks have been licensed for OBUs. These include the top international institutions, as well as one or two interesting Arab ones such as the United Bank of Kuwait (its financial centre of the first move outside London) and the Gulf International Bank, set up last year by the seven Arab Gulf states including Bahrain.

Solicited

The Bahrain Monetary Agency under its Managing Director, Alan Moore, solicited the big names and discouraged the lesser lights from applying for licences. Banks like Chase Manhattan, Citibank, Bank of America, NatWest, Midland, Algemeine Bank Nederland and on the licensing of new banks, Banque Nationale de Paris were wooed because these are the banks that already handle the bulk of the surplus revenues of the U.S. and Europe. With the arrival in Bahrain of three foreign exchange brokers as well—Sarabex and Marshalls, have just opened and R. P. Martin is due to do so—Bahrain is in a good position to take advantage of its geographical position between London and Singapore and fill the gap in trading hours between them.

Bahrain's other advantages are the absence of corporate withholding or personal taxation, good communications, its position in the centre of the Gulf (in the middle of the only OPEC States likely to be enjoying surpluses of funds in the 1980s), higher educational levels than elsewhere in the Gulf, little bureaucracy and a stable government. Its main drawback seems to be scarcity of accommodation and other facilities to support a large expatriate banking community.

There had been speculation that the UAE Currency Board— in effect, the central bank— might hold off from entering the OBU field in the interests of Gulf unity. But two weeks ago, reportedly at Dubai's behest, the Board finally took the decision. Scott (like Alan Moore originally a City of London man

and on close terms with him) was at pains to play the decision down when he announced it. Only about 12 OBUs will be licensed initially. "We are not really going wild like Bahrain," he explained.

However, the UAE, with much greater oil wealth than Bahrain, could clearly offer serious competition to its northerly neighbour. A lot depends on the quality of the banks the UAE attracts. Some of the banks with offshore licences in Bahrain are known to have taken them out only while waiting to see whether the UAE presents itself as a better option.

Equally, it is known that the interest of one or two banks in UAE OBUs is mainly the result of the two-year moratorium on new local banks opening. Much also depends on the terms under which OBUs will operate in the UAE. Only brief details are yet available. The Currency Board itself will impose no taxes or fees (a Bahraini offshore licence costs \$25,000) but long regarded as the natural financial centre of the UAE, may apparently levy a small percentage tax on profits. If it

Refuses

Kuwait could probably have developed into an important regional centre if it had been so inclined, but it steadfastly refuses to allow foreign banks to operate (the one exception recently made in the case of the Bank of Bahrain and Kuwait reflects the close relations between the two countries and the 50 per cent Kuwaiti ownership of the bank).

However, the Government has helped to build up the big three investment companies—the KIC, KVIC and the KVICC—as

forces in their own right on the international market, in addition to playing their part in investing government surplus funds, and Kuwaiti funds—public and private—are of increasing importance in regional and international investment. Private foreign investment alone is estimated to be worth \$6bn.

A start has been made on creating a local capital market. With government support, the Industrial Bank of Kuwait (IBK) has issued two public bonds in Kuwaiti dinars and created a secondary market. But the plans of International Financial Advisers—a Kuwaiti company with 45 per cent foreign participation—for two dinar issues on behalf of Kuwaiti firms are being hindered by the Central Bank of Kuwait's refusal so far to accept the bonds as liquid assets, as it did with the IBK issues.

Kuwait has an important regional role to play in the moves towards a joint Gulf currency, a development that would obviously speed the emergence of an Arab capital market. Several meetings between Kuwait, Bahrain, Qatar, the UAE and Oman have been held

and at the last Saudi Arabia was present (as an observer) for the first time—a significant addition. It is generally estimated that another 18 months or will be needed before a common currency sees the light of day.

Saudi Arabia's attitude clearly is important to fledgling financial centres in the Gulf. While it is assumed that Bahrain got tacit Saudi approval for its offshore banking plan, the Saudis appear to be keeping an open mind on developments there. London is still the most important overseas outlet for Saudi riyals. Bankers in Jeddah estimate the market here some SR200m a month. Outside the Gulf, only C and Amman have any prospect of inheriting business bequeathed by Beirut. Economic liberalisation measures have attracted venture banks involving main Egyptian banks, Western partners such as C. Manhattan, American Express and Barclays 11 foreign branches; and three free foreign bank branches.

Peter F.

BLACK AFRICA

Deeper into debt

BLACK AFRICA as a whole has scarcely begun to recover from the situation created by the oil crisis at the end of 1973. The price explosion in oil and manufacturers was immediately felt by the African economies. The strongest States found their payments surpluses slashed, marginal nations found that they were thrown into debt and had to live off reserves, while the poorest of the poor simply went bankrupt.

The latest World Bank report states that the Sahelian countries hit badly by the drought in 1973-74, and then by the world inflation which followed, have used up all their slender resources to meet the oil crisis, while others which are slightly better off have borrowed money at penal rates of interest on world markets. It is difficult to get an up-to-date financial background for Black Africa, as the region is notorious in producing its figures late. But Africa does have most of those countries designated by the United Nations bodies as those most seriously affected by the oil crisis. Twenty out of the 32 countries listed are from Africa. Africa also has most of those countries defined by UNCTAD as the least developed of the developing countries. Of the 29 countries with a total population of 240m., 18 come from Africa.

At the other extreme the only Black African countries to pro-

duce oil in significant quantities are Nigeria, Gabon and Angola, and recently Zaïre.

So Africa is the extreme example of the developing world's problems where during the last year balance of payments deficits totalled \$35bn., compared with only \$10bn. in the period 1972-74. This year the estimates are that the aggregate deficits will be anything between \$42bn. at the worst and \$30bn. at the best. Of this total the countries most seriously affected by the oil crisis account for 40 per cent. The other significant indicator is the way that debt owed by the developing world has exploded since the oil crisis. Before 1973 total outstanding debt was estimated at \$15bn., to-day it is \$120bn. (approximately \$80bn. owed to government and \$40bn. to companies). Africa's rate of growth, averaged 5.6 per cent, the oil crisis, has now been cut to 4 per cent. The poorest countries have only been able to achieve a growth rate of 2.8 per cent when allowing an average population growth rate of 0.8 per cent. It is true that Africa has been seriously affected by the oil crisis, but the short-lived boom of 1973-74. By high prices achieved in the month period did little to restore the balance between raw materials and manufacturers. The

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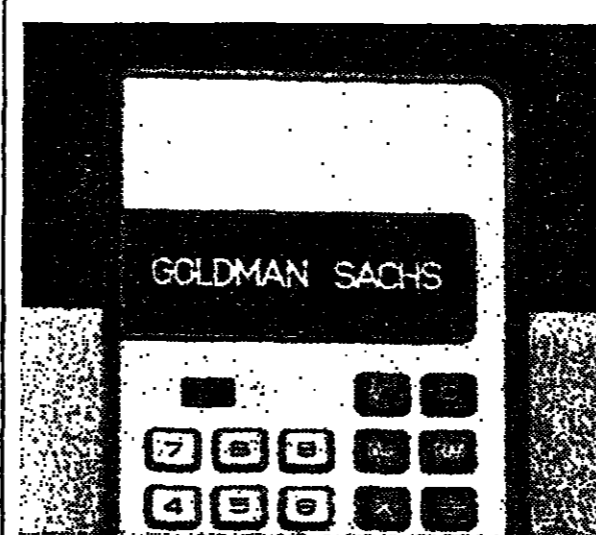
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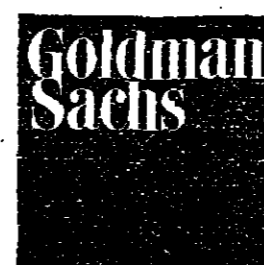


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مكتبة الأمل

WORLD BANKING XXXV

SOUTH AFRICA

role The going is tough

THESE ARE tough times for South Africa's 50 banks. Not only is turnover suffering as a result of prolonged economic recession but profit margins are under pressure because customers have been switching more of their funds from non-interest-bearing deposits to interest-bearing term and notice deposits. In addition staff costs and bad debt losses continue to mount.

Dr. Francis Cronje, chairman of the country's fifth largest banking group, Nedbank, insists that the new climate has resulted in a marked change in the style of South African banking. In particular he claims the banks are giving greater attention to credit evaluation and that would-be borrowers are again being ranked by the quality of their positive cash flows.

Mr. Abrahamson predicts that S. African banking is entering a period where the watchwords should be "slower growth, tighter loan policies and more conservatism." Bankers, he says, must now reconstruct their balance-sheets in order to prepare themselves for the next economic expansion.

To-day's tougher conditions were not unexpected. Indeed, they were predicted with uncanny precision three years ago by the South African Reserve Bank's top banking analyst, Mr. G. Meier. General cost increases were likely to continue, he warned them, and both salaries and interest payments on deposits would probably rise.

Salaries and wages will not only rise because of inflation but also because banks will have to pay competitive salaries to attract and keep top-class staff. The expected continuation of the present trend of a rise in the proportion of interest-bearing deposits, and the probable rise in interest rates, will pose serious problems as far as the profitable employment of resources is concerned.

Mr. Meier's prophecy certainly came true, as the following figures illustrate. As a proportion of total commercial banking deposits, demand deposits were 48.3 per cent at the end of 1972; 47.9 per cent in 1973; 45.3 per cent in 1974; and 40.1 per cent in December, 1975. By January this year the

THE BIG FIVE

(Rm. Sept. 1975)

	Assets	Deposits	Loans discounts & advances
Barclays	2,611 (2,279)	2,306 (1,995)	1,339 (1,169)
Standard	2,330 (1,972)	2,070 (1,756)	1,136 (1,078)
Volkas	1,501 (1,181)	1,384 (992)	556 (493)
Trust	986 (782)	836 (652)	247 (243)
Nedbank	949 (724)	724 (548)	358 (356)

Figures in brackets previous Sept.

Source: Quarterly returns to the Registrar of Banks.

proportion had slipped to only 37.8 per cent. Conversely, the proportion of interest-bearing deposits has soared from 51.7 per cent three years ago to as much as 62.4 per cent in January this year.

A development of particular importance in the past year was the re-linking of the prime overdraft rate to bank rate, which in turn the authorities promised, would be made to reflect more closely ruling money market rates. Thus prime overdraft rates were raised to 12 per cent in mid-1975 and the return on liquid assets pulled up generally.

On the other hand, the Reserve Bank imposed tough, new, profit-sapping liquid asset requirements. These provide for 75 per cent marginal liquid asset ratios against increased short-term liabilities for commercial banks (a requirement with which some of the bigger ones failed to comply in the early months of this year) and 70 per cent for other banks.

Losses

One of the worst banking losses was suffered by Western Bank, acquired by Barclays from the Anglo-American stable in March 1976. In the first six months after it was acquired, the bank chalked up a trading loss of R3m, partly because of the high cost of funds raised by the old management in the 1973-4; 45.3 per cent in 1974; and 40.1 per cent in December, 1975. By January this year the

Banks, Mr. J. W. Louw, had indicated that he was unwilling to issue another licence: (2) as a result of the high level of activity in the banking sector, accentuated by the high rate of inflation, the bank needed more capital to comply with the Banks Act; and (3) Barclays Bank International had accepted that it must reduce its percentage shareholding in its S. African operation in line with Pretoria's requirements (a maximum 50 per cent share holding within a "reasonable" period of time, generally taken to be within 10 years).

The results of the arrangements whereby fresh capital was raised and Western Bank became a wholly-owned subsidiary of Barclays were that the capital available to the group in S. Africa was increased by about R20m, and the interest of Barclays in London was reduced from 55 per cent to 63.8 per cent.

Other banks who raised capital during the year to keep their balance sheets in line with the Banks Act were Standard (R20m), Volkas (R13m) and Trust (R10m). It cost them dearly since their share market yields were at record highs.

As for lending, bank credit to the private sector increased at a seasonally adjusted annual rate of somewhat less than 15 per cent during the first half of 1975 and at a rate of over 19 per cent during the second half. For the year as a whole, the rise was roughly 17 per cent, a shade less than the 19 per cent recorded in 1974.

Discounts and advances rose by R791m, or about 15 per cent. The lending was done by the commercial banks (of which there are nine: the big four—Barclays, Standard, Volkas and Nedbank—plus Bank of Lisbon, First National City, French Bank of Athens and the Stellenbosch District Bank, the last of Cape Colony's 28 "unit" banks). Merchant banks (10), a general bank licence (which Western Bank possessed) at a time when the Registrar of

has eight savings banks and three discount houses.)

Of the different classes of discounts and advances, hire-purchase credit increased by R154m, or 34 per cent and merchandising leasing by R226m, or 71 per cent. The increase in these types of credit was particularly large towards the end of the year and largely reflected the financing of television sets. S. Africa's first-ever television service began transmissions in January this year.

Despite the deepening recession, during January last, bank credit to the private sector soared at a seasonally adjusted annual rate of nearly 25 per cent, and the Reserve Bank put this down to speculation against the rand, especially since it was accompanied by massive buying by the banks of foreign currency from the Reserve Bank. As a result, the bank slapped on a quantitative credit ceiling to protect the gold and foreign exchange reserves, which, net of the banking sector's short-term foreign liabilities, had fallen to a mere R58m (valuing the gold holdings at the official price).

Ceiling

Taking the end of December 1975 as a base, the ceiling was initially intended to limit the increase in discounts, advances, loans and investments of each bank to a maximum of 1 per cent up to the end of March 1976, and to 2 per cent per month afterwards.

What the Reserve Bank failed to realise, however, was the extent to which credit had soared during January (plus R217m) to finance an adverse leads and lags situation. Governor T. W. de Jongh immediately called in the banks for talks, after which he announced an easing of the restrictions. The new limit of banks' discounts, loans and advances was set at the December, 1975, base figure plus 3 per cent for the end of March. The 2 per cent per month restriction remained thereafter.

In retrospect the imposition of the credit ceiling was probably an unnecessary panic measure. The latest Budget should ensure that imports level-out and even decline while the gold swap arrangements announced in March have provided the bank with enough foreign exchange to meet any short-term balance of payments fluctuations.

In fact the big problem in the coming months is more likely to be a lack of credit demand than an excess.

Graham Hatton
Johannesburg Correspondent

Black

CONTINUED FROM PREVIOUS PAGE

trade had been deteriorating since the early sixties. Midway through 1974 prices collapsed and this, together with higher import prices, pushed Africa's best economies into deficit.

Africa's main exports by descending order of value are oil, copper, cotton, coffee, cocoa, iron ore, timber and phosphates. All these except oil and phosphates fell to levels prevailing in the early seventies. Consequently Zambia (95 per cent dependent on copper exports) and Zaire (65 per cent dependent) found they were producing copper at a loss. The cotton countries, Sudan (60 per cent dependent), Uganda (30 per cent), Chad (74 per cent), have had poor prices since the end of 1973 and all have seen their deficits increase.

In recent months prices of copper, cocoa and coffee have revived as the world economy begins to pick up. But today's levels in these three commodities do little more than redress the terms of trade losses over the last two years. Prices will have to be sustained while most of the other products affecting Africa have still to move significantly. Much now depends on whether today's commodity revival can be maintained, perhaps reinforced with a number of long-term commodity agreements negotiated as part of an UNCTAD package or separately with participating government support.

In the meantime Africa will be forced to continue the policy it has pursued over the past two years of drastically trimming imports. 1975 was the first year in recent times in which the developing world actually managed to reduce its overall total of imports in value (and even more in volume). This had disastrous consequences for African development and planning, for investment and for sustaining growth. Africa's deficits during recent

years have been covered by foreign aid (Africa is beginning to receive considerable support from Arab bilateral loans and by emergency funds from the UN and loans from the IMF) and by running down national reserves. Other developing countries have also had recourse for a major part of their deficit financing to the Eurodollar market.

Default

In Africa, Zaire, Ivory Coast and a few other countries raised a certain amount of this finance. But in 1975 Zaire became the first African country to default on interest payments on its loans. This caused a sudden shock to confidence in Africa as a whole and as a result the Eurodollar tap was firmly turned off and scarcely a loan has been made since.

Another feature of the past year has been a dramatic slowdown in private investment. Apart from the oil States and well managed economies such as Kenya or the Ivory Coast (or Sudan which is being helped with Arab and foreign funds to grow more food for export to the Middle East), there is probably net disinvestment in Africa as a whole.

Mining companies, are, so dispirited by low mineral prices and so unmoved by the pressure for Africanisation and increased State participation that many projects have been closed or halted in recent times. William Baird closed its Deleco iron ore mine in Sierra Leone in November. Charter Consolidated and a large international consortium decided to pull out of Zaire after already spending \$200m. Earlier Anglo American pulled out of the Akout copper project in Mauritania, because the price did not justify the desert grind.

Botswana RST copper mine is also making gigantic losses despite the best technical advice from leading mining houses in Amex and Anglo American.

Africa has been trying in the 15 years since independence to stimulate trade internally. So far success has been limited and even to-day intra-continental trade is less than 3.5 per cent of the world total. The Economic Community of West African States was set up by all 15 States in the region on May 28 1975, but we are still waiting for any concrete results to emerge.

Even more important might be the agreement to establish a West African Clearing House to enable all French and English speaking States in West Africa to offset inter-territorial trade between themselves and thus economise on foreign currency and speed up intra State settlements. The clearing house has now been established temporarily within the Bank of Sierra Leone under the first executive secretary Francis Aneghodje Ijewere, the former secretary of the Central Bank of Nigeria.

The quest for a clearing system can be traced back to 1965 when the Economic Commission for Africa discussed the idea. Further studies showed that delays in settlement of intra-West African trade was a major obstacle to trade expansion. The traditional system of settlement through London or Paris meant delays, extra banking charges and the necessity to find the hard currencies for immediate settlement. This was one of the many reasons why intra-West African trade was still less than 3 per cent of total trade with the world. And three quarters of the feeble 3 per cent was among Franco-phone countries.

Alan Rake
Editor, African Development

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IRAN

Coping with rapid growth

AT A recent financial conference the new Governor of the central bank of Iran, Mr. Mehman, gave a few figures to illustrate the expansion of the banking system. Six years ago, total lending by the banking system to the private sector was IR198.5bn. (\$2,500m). Now the figure stands at IR998.5bn. (\$12.5bn). Six years ago the banking system collected no more than the equivalent of \$3.3bn. in deposits from the private sector. Now these deposits have reached \$13.5bn. Although Iranians like to recount such statistics these in particular are illustrative. Few banking systems can have ex-

perienced such dynamic growth, especially over the past two years. Indeed, there is almost a sense of relief among bankers that the economy has now begun to slow down and things can proceed at a more ordered pace. The banking system has been put under tremendous pressure to cope with this rapid growth. For instance, in the first quarter of the last financial year March 1975/76, the demand for credit by the private sector was such that 40 per cent of the year's increase permitted by the Central Bank had been utilised. Normally the first quarter of the year is a relatively calm period, utilising an average of 19 per cent of the permitted credit increase.

In fact, such was the demand for credit, with some banks exhausting their entire year's allocations prematurely, that the Central Bank was obliged to raise the ceiling for the increase in credit to the private sector from \$3.7bn. to around \$5.1bn.—or a rise from 35 per cent to over 45 per cent. The demand for credit was such that the commercial banks also began to turn abroad for extra short-term funds. This practice was quickly stamped upon by the Central Bank. In mid-July it raised the ratio of the commercial banks deposits on such borrowings from 15 per cent to 30 per cent. This effectively prevented the commercial banks from looking to the abroad, and with the current climate of restraint, the Central Bank has given no indication of removing this requirement. It did, however, allow specialised banking institutions such as the Industrial and Mining Development Bank (IMDBI) to go to the international market for long-term funds.

Eased

In the past four months the demand for credit had noticeably eased. With economic growth for the year forecast at 17 per cent and with imports likely to be only marginally above the 1975 level, it seems that the normal pattern for credit demand—a pick-up towards the end of the year—will be followed.

It remains to be seen whether the Central Bank will relax a series of measures introduced last July to absorb excess liquidity. In that month the minimum reserve requirement on the increase in demand and savings deposits to be placed with the Central Bank by the commercial banks was raised from 12 per cent to 15 per cent, and the ratio of non-sight deposits which the banks were obliged to invest in Government bonds was raised from 30 to 45 per cent. This helped to channel short-term funds away from the private sector and made more money available for medium-term investment.

During the past year the authorities have shown increasing signs of a new emphasis on the role of the specialised institutions as the need for medium and long-term finance grows. Within three years credit by these institutions has increased from \$370m. to \$1.5bn. Of particular importance has been the Agricultural Development Bank, which during this period has really begun to fill a much-needed gap in extending agricultural credits. Two years ago the private sector set up a specialised bank for lending not only to construction projects but also to promote a construction materials industry. In addition, the Government is promoting a series of multi-purpose regional banks—three of which have already been established. These specialised institutions will not limit the functions of the commercial banks—rather will they be filling the gaps that

already exist. As it is, the commercial banks supply 75 per cent of all the banking system's credit. Among the commercial banks, five dominate the scene—Bank Mellat, Bank Saderat, Bank of Tehran, Bank Sepah and Bank Omran. Together they account for something like 75 per cent of total customer deposits. But even among the so-called Big Five, two banks dominate—Bank Mellat and Bank Saderat. They possess as many as 4,500 of the 7,500 bank branches throughout the country.

Uneven

This uneven distribution is largely of historical origin, but it has created a problem which the banking system has yet to come to terms with. The 18 other smaller banks, lacking such a wide deposit base, often find themselves short of funds, a shortage which is accentuated by the very limited inter-bank market.

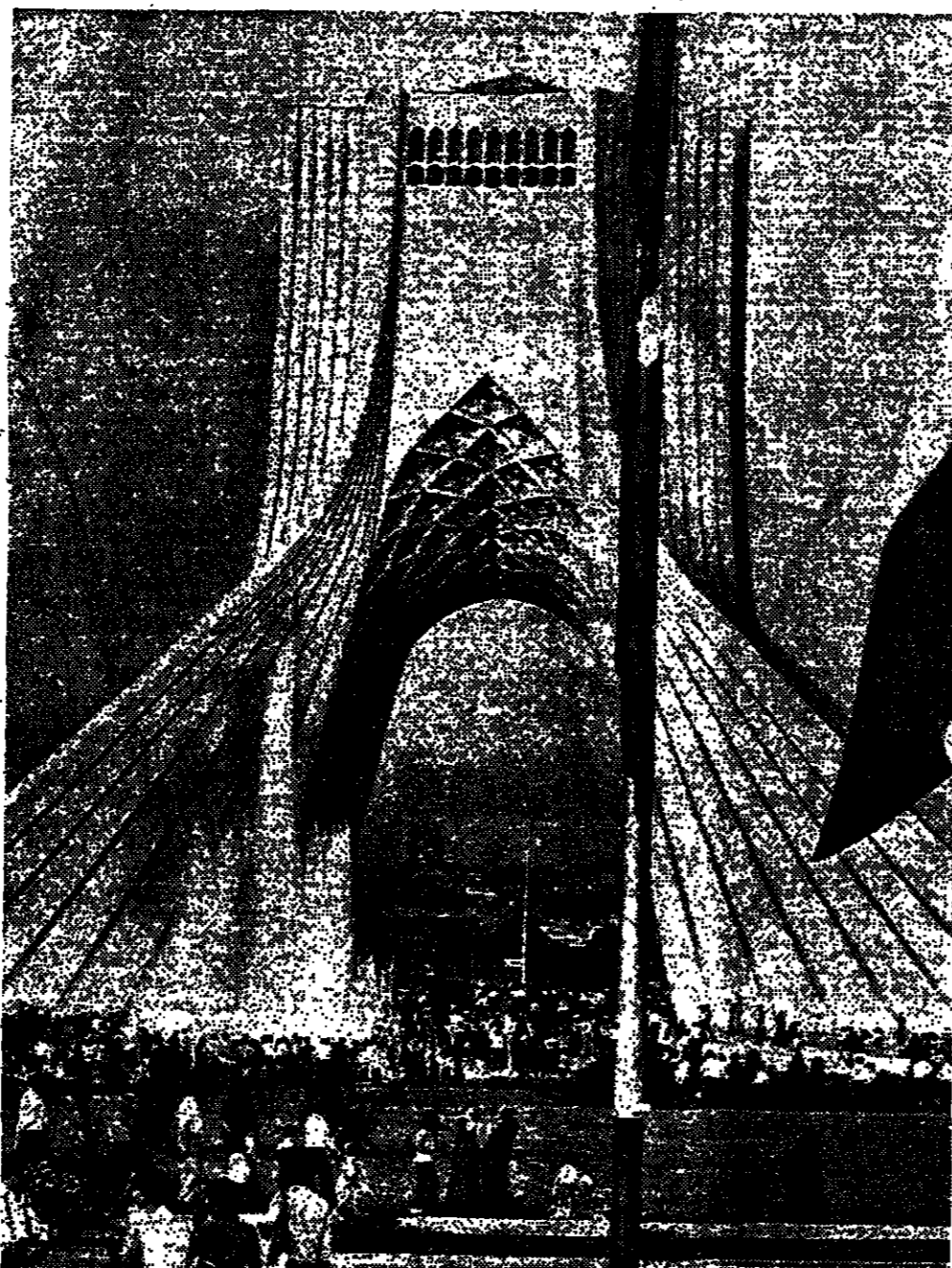
Another problem arising from the banks' rapid growth is their under-capitalisation. The Central Bank reckons that despite major capital increases by all banks in the past year, most are still under-capitalised. All banks now have a minimum capital of IR2bn. (\$28.7m) but this minimum is likely to be raised, with the new share capital being distributed among the populace as part of the Shah's scheme for wider public share participation. Foreign ownership in banks is limited to 40 per cent, though in practice no new ven-

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The Shahyad Monument, commemorating 2,500 years of the Persian empire.

Caribbean

CONTINUED FROM PREVIOUS PAGE

that they are unable to operate profitably. "They are supported by the employment of expatriate labour and raising company taxes from other areas," it is said. There have been very real efforts recently to tackle the remoter Cayman Islands, still under Britain's wing, such as the farmer, happened when the Bahamas became independent in 1971. Although the islands' earnings from the business have been little, a special development fund set aside for small businesses. The bank also has two agricultural advisers travelling around to its second largest source of outside income (to tourism).

The other side of banking in the Caribbean—the offshore banking sector—has succeeded in weathering the recession relatively unscathed. The two banks in the LDCs, most of which still rely on Britain or the Cayman Islands, appear to be attracting continuing funds of financial solvency. They have been particularly hard hit by the advantages and concentrated tourism slump, especially those management and financial expertise. There are signs that some banks have certainly more money is now coming from burned their fingers with a heavy U.S. Canada and Britain, such as try, either having to write off South America, Europe and investments or reschedule their Japan, although there is little loans because operators are un-

able to pay them off. The most notable collapse was that of the Court Line, with big hotels both in St. Lucia and Antigua, as well as the Government's latest regula-

Slump
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INDIA

Accent on flexibility

THE BASIC policy of dear money and controlled credit expansion in a bid to contain inflation was continued in India in 1975-76 but the improvement in the economy made changes inevitable. Inflation was brought under control—India is possibly the only country where prices are falling—as a result of monetary and fiscal policies of the Government combined with better agricultural and industrial production than in the two previous years when the economy was in the grip of stagnation. Yet there were signs of recession in the light of the "slack season," credit restrictions were more rigid since the objective was to continue the battle of inflation through the dear money policy and still ensure that the commercial sector was not starved of its credit requirements.

The accent was thus on flexibility. The credit policy was aimed at helping the rise in industrial and agricultural production and was changed to help build up stocks of essential commodities and assist further investment and production in what the Government considered were priority areas. The year witnessed a rapid growth of bank deposits and this helped to implement a flexible policy to the extent that the banking system's reliance on the Reserve Bank to finance credit expansion other than for public food procurement was limited.

The corporate sector continues to complain of undue restrictions on bank credit. Yet

the figures do not support the complaint. Bank credit to the commercial sector up to February, 1976, increased by a massive Rs.15.1bn., or 13.4 per cent., despite a slight fall in credit in the first four months of fiscal 1975-76. Credit to the Government also rose sharply but the increased advances to the commercial sector together with the increase in foreign exchange assets of the banks—were far and away the major reason for the large expansion of money supply in 1975-76.

In the earlier part of the year, in what is known as the "slack season," credit restrictions were more rigid since the objective was to continue the battle of inflation through the dear money policy and still ensure that the commercial sector was not starved of its credit requirements.

The basic refinancing limit, equal to 1 per cent. of the total demand and time liabilities of banks as of the last Friday of September, 1974, was also extended up to October, 1975, on the understanding that it would be used for inescapable clearing and other operational needs. At the same time, all special discretionary refinancing limits were to be gradually withdrawn so that the banks could start the "busy season" of 1975-76 with a minimum indebtedness to the Reserve Bank.

Deposit growth in the 1975 "slack season" proved to be so

favourable that the banks were able to meet the larger demands for credit without recourse of the refinancing limits from the Reserve Bank in full. The credit-deposit ratio in the slack season was about 55 per cent., higher than the 14 per cent. of the 1974 slack season. Against the entitlement of Rs.2.9bn. of refinancing for the outstanding level of food procurement credit (one of the main reasons for the rise in credit is the funds banks supply for food procurement) of Rs.7.4bn. at the end of the 1975 slack season, banks availed of refinancing from the Reserve Bank only to the extent of Rs.1.8bn.

Reconcile

The credit policy for the 1975-76 "busy season" as announced last November by the Reserve Bank sought to reconcile the requirements of stability with the need for stimulating production, especially in the priority areas. The overall emphasis continued to be on restraint, but flexibility in operation of the policy was permitted.

Some of the changes include easier refinancing facilities so that ample funds were available for food procurement purposes. Banks can now expect full refinancing in respect of all excess of outstanding credit of about Rs.6bn. against the earlier provision of Rs.4.5bn. All other refinancing accommodation is strictly at the discretion of the Reserve Bank at enhanced rates of interest ranging from 11.5 per

cent. to 18 per cent. and not on the basis of the net liquidity ratio as hitherto.

As regards selective credit controls, the busy season policy provides for reduction of margins in respect of free-sale sugar (part of sugar production is earmarked for a Government levy) from 25 per cent. to 15 per cent., groundnuts from 75 per cent. to 60 per cent., paddy to rice mills from 45 per cent. to 30 per cent., and cotton textiles including yarn and fabrics made out of synthetic fibres from 40 per cent. to 30 per cent. In the case of other essential consumer goods, a margin of 10 per cent. on stocks in respect of advances to the Central and State Government distribution agencies is required to be maintained.

The sectoral priorities indicated in the busy season policy were public food procurement, agriculture, fertiliser distribution, exports, public sector manufacturing units, industries in mass consumption and "core" areas, and small borrowers including small-scale industries. The policy also recognised the need to stimulate investment in the priority sectors which would influence the revival of demand for the recession-hit sectors like steel, transport equipment and industrial machinery. Commercial banks (which in India means the 15 major Government-owned banks) therefore were called upon to provide longer-term loans for periods beyond three years at a rate of interest not exceeding 15 per cent.

Thus while the emphasis continued to be on credit discipline, policy has been flexible in response to a changing economic scene. Special facilities were provided for the jute industry, which has been hit by falling demand, to build up inventories. Furthermore, to encourage export of consultancy services banks gave credit to finance their operations. And the list of industries eligible for concessional interest rates was enlarged to include such items as commercial vehicles, locomotives, central heating and industrial cooling equipment. Guidelines for credit are

being framed in terms of recommendations of a special study group which submitted its report last August. Credit for inventories for 15, rather than 10, industries has been allowed; for others, inventories can be financed on higher rates of interest. More important, a part of the working capital gap is being financed by long-term loans up to 75 per cent. of the gap. The recommendations of the study group constitute an important step forward towards rational credit planning. At the same time, it has to be recognised that in Indian conditions, industrywide norms have to be implemented with due flexibility.

An important development in Indian banking has been the rapid progress in opening bank branches in rural areas. These have increased from 1,832 in June, 1969 (when the banks were nationalised), to 7,376 in December, 1976. The proportion of rural branches to the total network of bank branches increased from 22.2 per cent. in June, 1969, to 36.1 per cent. in December, 1976. Out of every 100 branches opened since nationalisation, 46 are

located in rural areas, thereby meeting the credit needs of farmers who were formerly in the hands of the professional money-lenders who were responsible for the evil of colossal rural indebtedness. However, institutional credit still accounts for about one-third of the rural credit requirements and a substantial portion of such credit is still met by private and unorganised money-lenders. Liquidation of rural indebtedness is now a part of the Government's new economic programme and further institutions for credit are being set up. A phased programme of opening 50 State-sponsored rural-oriented commercial banks is being implemented. In fact, a considerable expansion in loans by the banks has been directed towards agriculture and neglected sectors. The percentage share of loan to agriculture, small industries, road and water transport operators, retail trade and small business, professional and self-employed persons and education to total loans increased

from 14.9 per cent. in June, 1969, to 26 per cent. in June, 1976. The increase in 1974-75 was mainly in respect of agriculture; during the busy season of 1974-75, public food procurement credit accounted for 31.2 per cent. of the increase in gross bank credit as against 13.3 per cent. in the busy season of 1973-74.

The Government does not expect the increase in money supply to have an inflationary impact but it has sounded the warning that a high rate of growth of money supply cannot be sustained year after year without adverse effects on prices. Growth of the economy in 1975-76 was helped by favourable weather, which boosted agricultural production, but this cannot always be assumed. The Finance Ministry has said offhandedly that "Due care has to be exercised to ensure that the needed stimulus to investment and production is provided in a manner which does not lead to a situation in which the growth of money supply is in excess of the rate of growth of output."

K. K. Sharma
New Delhi Correspondent

PAKISTAN

Firm control in crisis

THE WORLD recession leading to economic crisis in Pakistan was of such magnitude that the United Nations in a special report classified Pakistan as one of the Most Seriously Affected—MSA—countries. To overcome the difficulties Pakistan asked the developed countries to undertake international action and provide im-

mediate and effective debt relief in respect of public debt to the MSA countries. This request was made in Paris in March this year on behalf of the "Group of 19" which includes developing as well as the energy crisis, increases in the prices of Western technology and the slow recovery rate in the developed countries, restrictions on the export of textiles, and quotas fixed by major buyers and tariff restrictions by the developed countries.

According to Finance Minister Rana Hanif, Pakistan's total external debt at June 30, 1975 amounted to \$5.5bn. The total amount of external public debt disbursed during 1974-75 was \$914m. but during the same year, external debts amounting to just over \$1bn. were contracted, including \$296m. in foreign exchange and \$34m. in rupees required for external public debt servicing liabilities during 1975-76. This was because of rescheduling of debt service payments; without it the country would have required \$478m. in foreign exchange and \$24m. in rupees for the purpose.

The overall balance of payments position caused by the decline in the growth rate of exports following the fall in world prices is causing concern to the authorities.

Dominant

The textile industry is a major contributor to the GNP and a dominant processor of the main agricultural cash crop—cotton—as well as employer of nearly 50 per cent. of the total industrial labour force.

The two major causes of a slower growth rate in Pakistan, according to Mr. A. H. M. Dadabhai, chairman of the All Pakistan Textile Mills Association, are unfavourable terms of trade in the international market for textiles and lack of sizeable exportable surplus. Of the internal factors, the steep rise in the price of cotton has gone a long way in sharpening the edges of the crisis.

Exports have stuck around the \$1bn. mark for the past two years and it seems that performance in the current fiscal year

is unlikely to be any better than output, sales and profits of the nationalised industries have increased. The question whether these benefits have really been passed on to the common man. The State enterprise, which was not created to exchequer alone but emphasis was on bettering lot of the common man by doing more and selling cheaper and tariff restrictions by the developed countries.

Growth during the current financial year is likely to be around 7 per cent. This will be about 3 per cent. less than the growth rate of 9.4 per cent. envisaged in the Annual Development Plan. The reasons for this shortfall lie in the below-expectation performance of the agricultural and industrial sectors. Since the population growth rate is estimated to be around 3.5 per cent., the net growth rate may be only 3 per cent. this year.

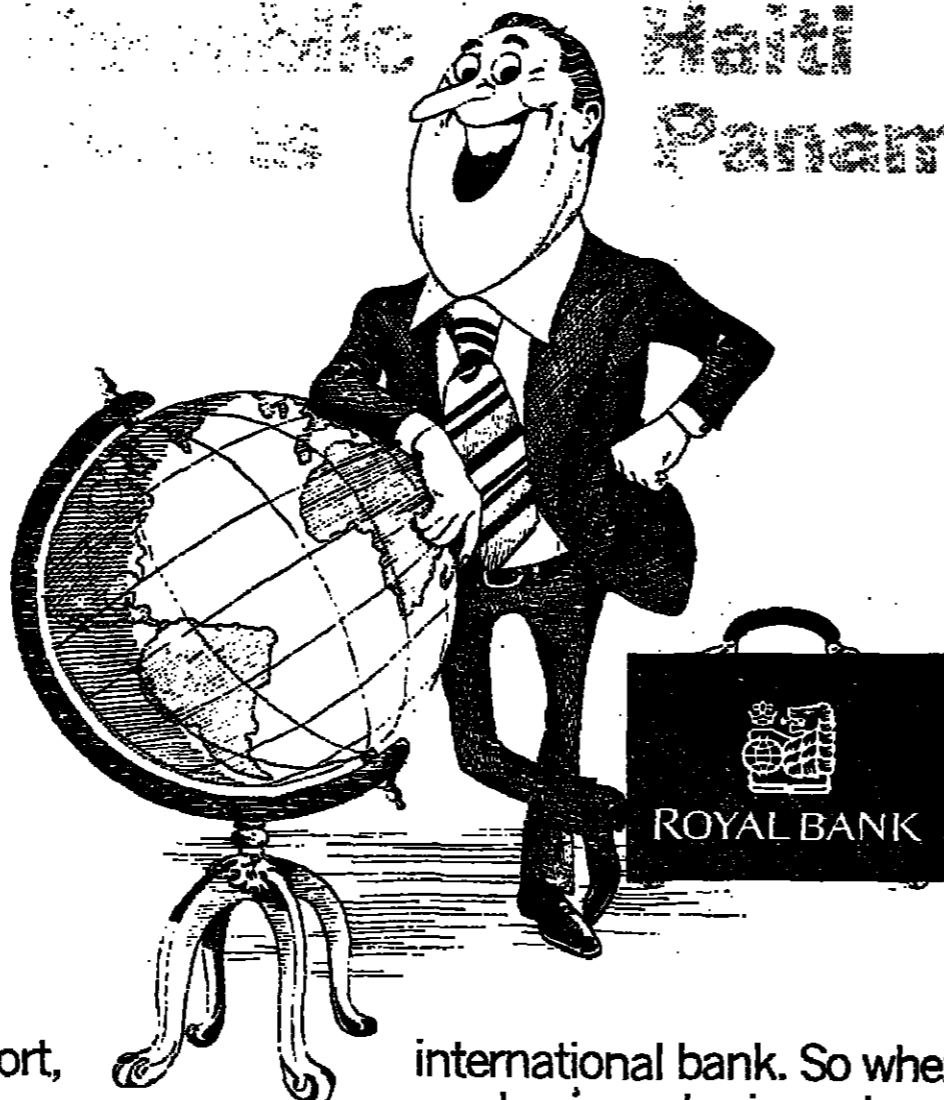
The private industrial sector, shaken badly following the takeover of management control of 31 industrial units in January, 1972, continues to lie virtually stagnant. This has considerably slowed down the economic progress. The idea of takeover was a revolutionary concept obviously aimed at cleansing the economic scene of manipulative practices by bringing the basic industries under State control. The Government's assessment was that the "benefits of economic development and industrialisation have remained confined to the privileged few to the detriment of the common man" and therefore, it was felt that in order to "ensure that the wealth and economic resources of the country are exploited to the maximum advantage of the common man, management of certain categories of basic industries should be taken over by the public sector."

The Board of Industrial Management's annual report for 1973-74, which was the first year of the fully-fledged operations of nationalised industries under resulted in a decline in the Board, shows that the capita income to Rs.54 nationalisation experiment has against Rs.54 in 1973-74. According to official estimates

the fact remains that the level of wages arising from statutory increases enforce the Government and inflation interest rates have caused setback to profitability in industrial sector. Besides, lack of adequate investment in the private industrial sector also seem have caused widespread ructions on the economy whole. The growth of GNP in 1974-75 touched a new of 2.6 per cent. as compared to 1973-74 at 4.6 per cent. in 1973-74. The increase in population also resulted in a decline in the GNP rate of growth. The GNP rate of growth in 1973-74, which was the first year of the fully-fledged operations of nationalised industries under resulted in a decline in the Board, shows that the capita income to Rs.54 nationalisation experiment has against Rs.54 in 1973-74. According to official estimates

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CHINA

Less active role

THE CURRENT political climate in Peking is unlikely to be conducive to the expansion of international banking activity. The pressure of the present campaign against the "capitalist roaders" is all towards self-reliance in economic development, and though there may not be a reduction in the Bank of China's normal programme, it seems unlikely to grow.

Foreign trade may continue to increase, but this year will hardly see the striking growth that occurred in 1973 and 1974. The interesting financial ideas that the Bank was prepared to discuss in Peking with foreign visitors in 1972 are no longer heard of. Instead foreign bankers are taken to see examples of self-reliance in the economy.

Nevertheless the Bank of China, which handles all China's overseas banking business, has reached quite a satisfactory plateau. It plays host annually in Peking to a hundred or so foreign bankers, mainly from Britain, Europe, Japan and Australia. While no very large amount of business may result directly, these visits have a beneficial effect on the relationship. It is all part of the traditional Chinese preference for doing business with people who have become friends. A degree of mutual trust is built up between the bank and its contacts, so that if Peking did ever want to borrow on a large scale, it would have no difficulty doing so.

The Bank of China's activities expanded enormously in 1974. This was the period of China's rapidly increasing imports, when the West rose in price because of inflation. At the same time world demand for Chinese commodities, particularly textiles,

Claims

The Bank of China cannot have full direct relations with any U.S. bank until the "frozen assets" question is solved. This problem, arising from U.S. economic sanctions against China during the Korean war, involves \$160m. of U.S. claims in China and \$76m. of Chinese assets in the U.S. Until some agreement is reached between the governments, any funds deposited by the Bank of China with a U.S. bank could be seized to meet Chinese liabilities. The most likely answer is an agreement to accept each others' assets in lieu of other payment.

This would be advantageous to the Chinese, but so far they have shown no disposition to accept. The probability is now that there will be no solution until full diplomatic relations are in sight.

The amount the Bank of China accepts in deposits from

other banks is unknown. However, it can hardly be less now than about \$1bn. because of its trade needs. Its trade deficit in 1974 was reliably estimated by U.S. sources to have reached about \$1.3bn., on a total trade of about \$13bn.

In 1975, though actual trading returns are likely to show a lower deficit, the Chinese took delivery of large quantities of equipment that they are paying for on medium credit terms.

U.S. sources again estimate repayments due on plant contracted for up to the end of 1974 (and there has been little since then) to be about \$340m. for 1976. This would rise to a peak of \$370m. in 1978, and then drop off to \$108m. in the final year 1982. These sums are not large, so that if trade comes into balance again this year, which seems likely, the Chinese will have their commitments well in hand. It remains to be seen whether they will resume large-scale buying once they feel their financial situation to be more secure.

Complete figures for China's 1975 trade are not yet available. In any case, as the Chinese themselves publish no figures whatsoever, these are normally compiled from partner country statistics. However, figures and projections put together by the Japan External Trade Organisation suggest that Peking's 1975 deficit will be very much smaller than it was in the previous year. It was evident from early spring onwards last year what the Chinese strategy was to be: agricultural imports from the U.S. were severely cut and until the end of the year there were no more contracts for complete plants. At the same time the Chinese put much effort into selling more, paying more attention to their customers' needs.

The JETRO estimates predicted a total trade for China in 1975 of \$14.7bn., some \$1.7bn. up on 1974. Most of the estimated increase came in exports, so that the Chinese would have ended the year with a deficit of around \$146m. They would have had no difficulty raising that amount in addition to the previous year; their standing is such in the banking world that they could borrow many times that amount in the international money market. U.S. observers in Hong Kong put the figure much higher, at close on \$500m., but even that would not present immediate difficulties.

The salvation of China's trade last year was its crude oil. Oil exports to Japan last year (by far its largest customer) constituted 48 per cent. of the total. As traditional exports like textiles fell off badly because of the slump in demand, China's trade with Japan would have been even more one-sided without oil.

Total trade with Japan reached \$3.8bn., but Japan's sales were \$2.2bn., compared to China's \$1.5bn.

However, China's crude has a high wax content and is expensive to process and transport. Japanese oil men are reluctant to buy more than a minimum, and it seems unlikely that sales will rise rapidly. Oil exports to Japan this year may even fall below last year's. In the current year the Chinese will probably emphasise their traditional exports again.

The People's Bank of China, which handles all bank business within China, continues to avoid publicity. Although all the country's money transactions above a small amount pass through its books, it is seldom mentioned by Press or radio. There was a break with custom last year when a delegation from the People's Bank toured several African countries, including Zambia, Tanzania and Somalia.

The People's Bank acts indirectly as overseer of the national plan, since no enterprise can pay for goods or services without the Bank's knowledge. It is also the organisation through which the army is paid, so that in times of stress whoever controls the Bank could have an important influence.

All savings are deposited with the People's Bank or its agencies. Last year these were said to be up on the 1974 figure by 8.3 per cent. in the urban area and 14.2 per cent. in the countryside. There is considerable official encouragement to save. In workers' households and in prosperous communes there is opportunity to do so since housing costs are tiny and food prices low. What use the Bank makes of these deposits is unclear, as the factories and communes that foreigners visit always stress their self-reliance in raising capital and do not admit to borrowing. It is possible that these funds are borrowed by the Government to finance its various commitments.

But whatever the procedures the Bank adopts, they are likely to be extremely cautious. More foreign bankers agree that the business: the service aspect of the institutions is also emphasised.

The consensus of opinion in Pakistan is that after rowed by the Government to nationalise the services of finance the banks have remained satisfactory and in some cases have even improved. Now not only is importance attached to the development of deposits, and the business: the service aspect of the institutions is also emphasised.

Iqbal Mirza Karachi Correspondent Colina MacDougall



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Pakistan

CONTINUED FROM PREVIOUS PAGE

growth in large-scale manufacturing declined to a meagre 1 per cent compared to 7.5 per cent in 1973-74 and 11.9 per cent in 1972-73, and the trade balance touched a figure of about Rs.10bn. with the import figure standing at Rs.22bn.

Knowledgeable sources feel that the situation demanded a shift towards increasing invisible exports, including manpower, banking and shipping and so on, to bridge the gap.

Instead, the Government put ban on the emigration of Pakistanis in search of employment through an ordinance promulgated on January 10 last.

A disappointed official remarked: "They have killed the goose that laid golden eggs." According to official statistics, 374-75 foreign exchange earnings from remittances home by Pakistanis abroad had reached Rs.2bn., which accounted for one-fifth of Pakistan's total foreign exchange earnings.

The immense harm that had been done to the country can be gauged from the fact that no less a person than Prime Minister Zulfikar Ali Bhutto himself had to intervene personally and order immediate withdrawal of the ordinance on February 4. On several occasions earlier the Prime Minister had to take the initiative to rectify errors on the part of nationalised Provincial Co-

operative Bank. These have emerged out of the amalgamation of 14 banks that were nationalised on January 1, 1974.

Deposits of the five nationalised commercial banks—National Bank of Pakistan, Habib Bank, United Bank, Muslim Commercial Bank and Allied Bank of Pakistan—went up from Rs.26bn. at the end of December, 1974, to Rs.34bn. as on December 31, 1975, an increase of 31.26 per cent.

Advances, which were of the order of Rs.19bn. on December 31, 1974, went up to Rs.23bn. on December 31, 1975, an increase of 21.8 per cent.

The Pakistani banks have also set up joint-venture banks in other countries, one by Habib Bank in Malaysia, another by National Bank of Pakistan in Saudi Arabia, and a third by United Bank in Oman. A joint venture bank is being established by the Muslim Commercial Bank in Dubai.

The consensus of opinion in Pakistan is that after rowed by the Government to nationalise the services of finance the banks have remained satisfactory and in some cases have even improved. Now not only is importance attached to the development of deposits, and the business: the service aspect of the institutions is also emphasised.

There are five nationalised banks, the Government not only retained all the professional managers; it also gave them full liberty to run the banks on commercial lines without any hindrance or interference and the results have been rewarding. The nationalised banks continued not only to show an increase in deposits but also maintained the prescribed liquidity of 35 per cent. Their lending operations were within the credit ceilings prescribed by the National Credit Consultative Council in accordance with the requirements of the International Monetary Fund.

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LATIN AMERICA

New mood of realism

"WILL THE other banks start to pull the rug out from under Brazil?" The anxiousness of the question posed over lunch by two British merchant bankers underlined the new mood of realism that has replaced the former euphoria of international bankers for the largest country in Latin America. The question was backed up by a recent bank circular which talked of Brazilian bankers being "stunned" and "extremely apprehensive" over the latest devaluation moves being made by the Brazilian Central Bank.

Though it must one day come back, the shine for the moment has come off Brazil as a place in which to do international business. As the Brazilian star goes behind a cloud others which have glowed only dimly over the past few years are beginning to recover their brilliance.

As the months go by the situation in Venezuela, as it digests its great new wealth and starts to fix its financial strategies more firmly, becomes clearer. In a word Venezuela is destined to become more active as an international financial dealer.

Returns

The multi-million dollar funds now lodged by the Government in the Fondo de Inversiones de Venezuela are the single biggest chunk of money which the Venezuelan authorities have to manage. Making sure that the best possible return is received on this part of the oil revenues has brought Venezuela into international markets as a lender, albeit a cautious one, whose desire for good returns is balanced by a strong instinct to play safe.

Reports, not as yet borne out by facts, continue to circulate that the Fondo wants to set up its own foreign operation in London or possibly some other financial centre.

Equally importantly it is clear that the current opinion of those in Venezuela who want the country to borrow abroad so as to be able to press

ahead with its expenditure plans as soon as possible are gaining strength. It is no secret that they include President Carlos Andres Perez himself.

The argument that many international bankers have been putting to the Venezuelans strongly is that it is better to borrow while Venezuelan credit is at its highest and not run the risk of paying more if a rainy day ever comes.

It seems to have been accepted and before long the first moves are likely to be made for the Venezuelan public sector to borrow funds as well as lend them.

Meanwhile the Venezuelan private banking sector is not being left behind and is preparing to become more active internationally. An enthusiastic standard bearer of the Venezuelan private banks, Dr. Ralph Franklin Calatchi of the Sociedad Financiera Union of Caracas foresees a steadily growing number of foreign issues being floated on the Caracas capital market and increasing participation by Venezuelan banks in non-Venezuelan borrowing such as the participation in the \$380m. Pemex syndicated bank loan at the end of last year.

The pace of these developments, like many other developments in Venezuela will to a great extent be limited by the lack of experienced personnel.

A second growth point for international banking must sooner or later be Ecuador, apart from Venezuela, the only member of OPEC in Latin America. The country is going through great travail at the moment as abrupt changes in oil revenue, due to natural disasters and a series of political and commercial pressures, make forward planning extremely difficult.

Ecuador was among the first of the OPEC countries to go into deficit on its trade account, as the oil did not flow as expected and revenues did not keep pace with expenditure. The battle is still going on in

Quito, the capital, over what should be Ecuador's oil strategy. Nevertheless there cannot be any doubt that in the next year or two Ecuador will settle down to more stable incomes with oil production, now hovering around the 200,000 b/d mark, perhaps building up to 300,000 b/d.

Tonic

The increased flow of funds to Ecuador should act as a big tonic to banking activities. The security represented by the oil revenues must surely tempt Ecuadorian governments to borrow on the international markets more than they have up till now. Domestically there is little likelihood that Ecuador will have funds surplus to its requirements which could be lent out as Venezuela is lending. But the new flush of money must bring about a revolution in domestic banking procedures, which in the case of some banks are antiquated in the extreme. At the same time the Government has decided to defend its own patch by forbidding any new foreign investment in banking, insurance or any other financial activities.

Big new export earnings from oil and natural gas give Bolivia a much enhanced place in the world of international banking. The security represented by this new income has boosted Bolivian credit ratings and new borrowings have brought the foreign debt to \$1.6bn. as YPFB, the state oil corporation, and other Bolivian concerns have gone to the market for development funds.

But developments in Ecuador and Bolivia, interesting as they are, must pale in comparison with the financial developments on the horizon in Mexico. For their own good political reasons the Mexicans have blurred the possible effects on their economy of the very large new discoveries of oil recently made in Southern Mexico.

In the second half of this year exports of crude are planned to average 230,000 b/d.

This however is less than half the story. The Mexican strategy is increasingly to process its crude at home and export the refined products at much more advantageous prices. The receipts from this operation should eventually transform Mexico's finances. For many years Mexico has had a massive trade deficit, often exporting goods worth little over half the value of imports and making the gap up by tourist receipts and capital inflows.

The oil wealth will lead to a great strengthening of Mexico's international position and of its banks.

The changes in the financial standing of the various countries of Latin America are closely allied to their energy resources.

Hugh O'Shaughnessy



Expressway interchange at Caracas, Venezuela.

BALANCE OF PAYMENTS TRANSACTIONS BY THE MONETARY SECTOR, BY COUNTRIES, 1970-73 (Millions of dollars)

	1970	1971	1972	1973
Argentina	-147.0	63.0	129.0	18.0
Barbados	0.6
Bolivia	1.4	5.5	9.2	12.3
Brazil	155.0	211.0	1,061.0	476.0
Chile	-22.0	87.0	206.0	...
Colombia	42.0	98.0	31.0	-44.0
Costa Rica	-0.9	-3.5	2.3	10.2
Dominican Republic	11.8	10.6	-12.8	16.8
Ecuador	15.2	19.3	-25.0	-12.3
El Salvador	-1.5	2.6	-0.7	3.5
Guatemala	-6.7	0.4	-3.3	-0.6
Haiti	1.0	1.0	0.5	8.1
Honduras	5.0	0.9	11.8	16.1
Jamaica	...	-17.8	30.4	1.2
Mexico	38.0	-65.0	-24.0	-21.0
Nicaragua	-1.0	4.9	-9.8	7.4
Panama	38.7	81.8	292.1	142.1
Paraguay	2.0	-8.4	2.3	9.0
Peru	65.0	11.0	5.0	...
Trinidad and Tobago	-3.8	-2.3	10.7	11.1
Uruguay	19.9	-10.6	-17.6	-15.7
Venezuela	2.0	-2.0	-51.0	...
Latin America	214.7	*497.4	*1,651.7	*637.4

... Data not available.

* Excludes Barbados.

† Excludes Barbados, Chile, Peru and Venezuela.

Source: Inter-American Development Bank

The pound

CONTINUED FROM FRONT PAGE

showed a considerably reduced surplus available to the oil exporting countries for investment at \$31.5bn. against \$56.4bn. in the previous year. Of this, it was estimated that \$4.3bn. came into the U.K., substantially reduced from the previous year's inflow of \$21bn. More to the point, the inflow last year was entirely in the form of foreign currency holdings in London, while amounts invested in sterling outlets were unchanged.

There was some increase in holdings of U.K. Government stocks and other sterling investments, but these were offset by a \$900m. drop in Treasury bill holdings. And the situation provided a marked contrast with the previous year's experience, when the U.K. benefited from an inflow of \$6bn. of funds into sterling investments.

These figures highlight the difficulties of reconciling the need to maintain the pound's attractiveness to foreign holders with the domestic policies towards the expected recovery in economic activity. The final strand in the problem is the direct effect which the fall in the value of sterling has on the domestic economy itself, in contributing directly to inflation. It has been officially conceded that the impact of the lower value of the pound could prevent the Government from achieving in full its target of cutting inflation back to a single figure by the end of this year.

The impact of the drop in the value of sterling in March has already shown up in the level of industry's raw material costs. The latest figures of wholesale prices showed that though out-

put prices rose only slowly the cost of materials and bought by manufacturing industry jumped by 3.7 per cent in March. The main factor in increase was stated to be fall in sterling.

The March drop in the value of sterling, it is reckoned, would on its own add 3 per cent to the cost of living over a period of nine months. The official forecasts have allowed a depreciation of the pound sufficient to maintain the competitiveness of British exports. But a reduction in the value of the pound beyond this would be justified on the grounds that the prospect of the counter-inflation policy on the success of that depends very largely on the confidence in the U.K. a sterling.

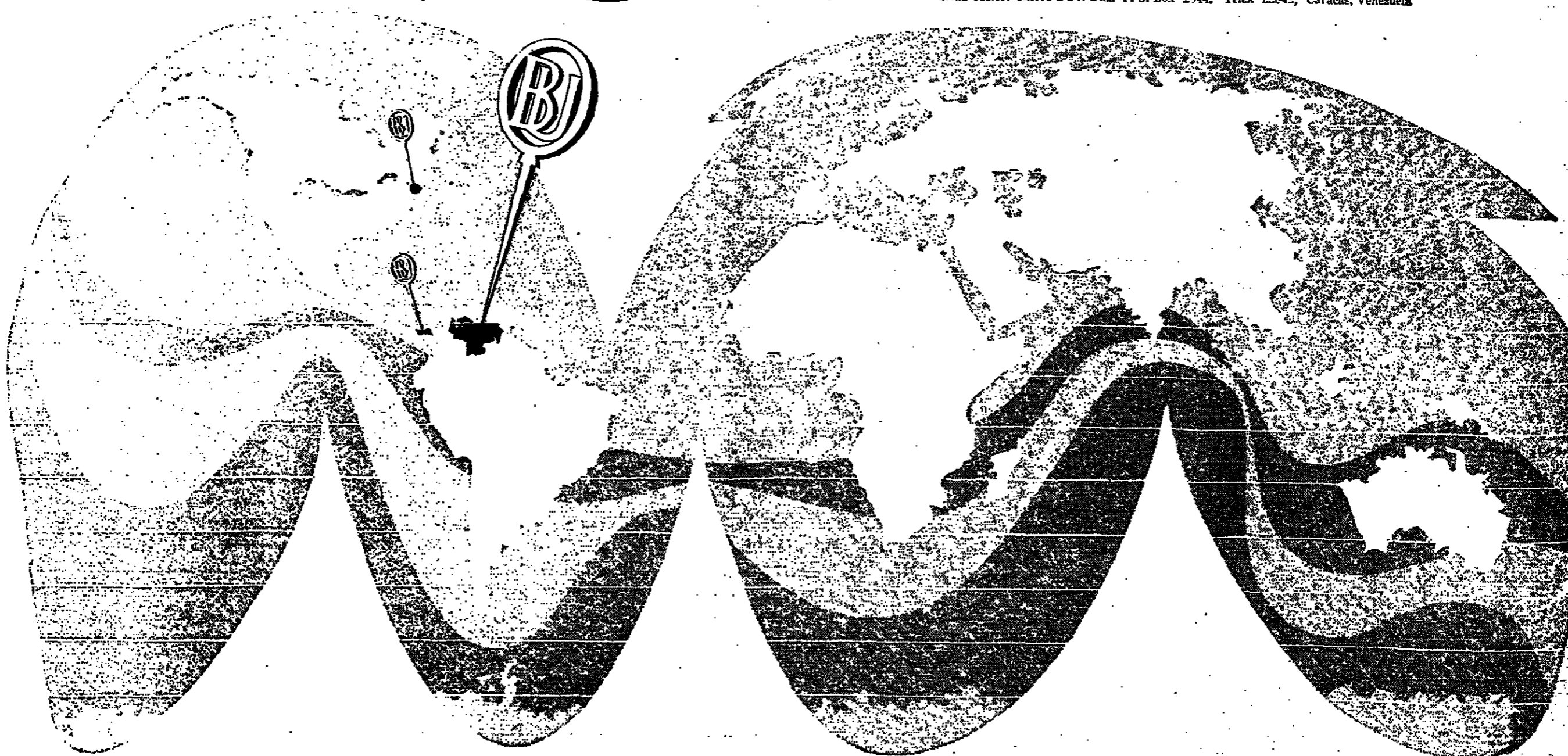
BANCO UNION

30 years of close union with
Venezuela's dynamic progress

1946 At the end of World War Two, Venezuela starts a new stage in her economic and social development. BANCO UNION is founded and its first office is opened in Caracas.

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COMPANY NEWS + COMMENT

BPC strongly placed for upturn

TRADING results for the first months of 1976 at British Printing Corporation are down on 1975 but the company is in a strong position to benefit from an upturn in the economy, states Sir Charles Hardie, chairman.

The printing and packaging industry should respond to an improvement in economic conditions if this occurs in the second half and publishing activities should improve as 1976 progresses—benefits are expected from the expansion of overseas publishing activities.

Trading profit as reported on April 3, declined by £1m. to £7.04m. in the year to January 3, 1976 and Sir Charles attributes this to the downturn in the U.K. economy. Pre-tax profit was down from £4.32m. to £3.12m. and the dividend is unchanged at 3.125p net.

Sales—at £15.4m. (£10.2m.)—and profit after local interest charges and before exceptional items—£2.4m. (£0.82m.)—are split as to 1976: Europe 3,700 (£4,000) and 290 (£474); Africa 800 (£1,100) and 22 (£351); Asia 7,400 (£2,500) and 1,380 (£182); Australasia 1,700 (£1,000) and 170 (£160); Americas 800 (same) and 110 (£171).

The company has continued to invest in a number of specialised printing and packaging activities from which important benefits are expected.

Despite an increase in interest charges the corporation improved its overall liquidity at year-end by more than £2m. with an improvement in the U.K. of more than £2.5m.

Meeting, 20 Aldermanbury, EC, May 26, noon.

comment

Though British Printing suffered a considerable set-back in the second half of 1975, with pre-tax profits falling by two-thirds to leave the year some £1.4m. lower, the full report underlines some optimism for the latter half of this year. The two trouble spots were Sun Printers, with a trading loss of £349,000 before hefty exceptional redundancy payments, and the packaging and paper division, where profits dropped by some 48 per cent. This year Sun is still making losses, but packaging is now looking more promising after a poor start and publishing will again increase after a depressed second half last year. Undoubtedly the interim profits to next July will look disappointing against the comparable figure of £2.2m., but this should be discounted in a share price of 44p (against net assets of 50p) where the yield and p/e are 11.1 per cent. and 10.1 respectively. Meanwhile, borrowings are virtually matched by shareholders' funds and gearing is down by about a tenth against 1974.

Chairman's statement Page 7

Scottish Co-op invests £2.25m. in new centre

THE CO-OPERATIVE movement in Scotland has completed the first stage of a £2.25m. distribu-

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Cory (Horace)	34	3	Laird Group	34	5
Dufay Bitumastic	38	4	Matthews Wrightson	34	3
East Asiatic Rubber	34	8	Menzies (John)	34	4
Excess Holdings	34	7	Revertex	34	5
Fairbairn Lawson	34	5	Scottish Offshore	34	7
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tion centre for non-food goods on a 245,000 square foot development at Culterhams Road, Glasgow. The centre near Glasgow will hold some 50,000 items and turnover in the first full year is expected to exceed £13m. The centre, using the single-drop delivery concept, will eventually employ about 300 people.

It will ensure regular supplies to Co-op stores throughout Scotland in places as far apart as Lerwick in the Shetlands and Dumfries in southern Galloway. Distribution will be by a fleet of 20 vehicles using 30 demountable bodies.

Highland Electronics advance

From increased turnover of £1.98m. compared with £1.51m. profit of Highland Electronics Group expanded from £130,126 to £132,738 in the six months ended October 31, 1975, subject to £78,500 (£88,000) tax.

It is not the company's policy to pay an interim dividend. The previous year 0.5p net was paid from profits of £248,865.

Mr. M. Cohen has replaced Mr. J. Dellar as chairman.

The company makes electronic components.

Difficult trading at Kenkast

During the current year conditions at Kenkast remain difficult, particularly in the housing and building divisions where inquiries are at a low level, reports Mr. Ken Stockton, chairman in his annual statement.

However, there does appear to be the first signs of an upturn in the domestic and mobile home divisions. In the mobile home division the benefits of a new range of mobile and holiday homes recently introduced are being felt, at the same time as the first signs of a revival in the caravan industry.

Matthews Wrightson confident

As reported April 2, the company incurred a pre-tax loss of £124,808 during 1975, compared with a profit of £47,268. There is no dividend, against 0.67p net in 1974.

Meeting, Walkden, May 25, noon.

Chairman's statement Page 38

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AUTHORISED UNIT TRUSTS

Legal & General Unit Trusts		Scottish Equitable Unit Trusts		Target Unit Trusts	
Capital	100.00	Capital	100.00	Capital	100.00
Income	100.00	Income	100.00	Income	100.00
Dividend	100.00	Dividend	100.00	Dividend	100.00
Yield	100.00	Yield	100.00	Yield	100.00
...

INSURANCE, PROPERTY, BONDS

REGIONAL MARKETS

Region	Value
London	100.00
Edinburgh	100.00
Birmingham	100.00
...	...

BASE LENDING RATES

Bank	Rate
Bank of England	10.00%
Barclays Bank	10.00%
Bank of Scotland	10.00%
...	...

Abbey Life Assurance Co. Ltd.	Capital 100.00
The City of Westminster Assurance Co. Ltd.	Capital 100.00
...	...

OFFSHORE AND OVERSEAS FUNDS

FINANCIAL TIMES STOCK INDICES

Index	Value
FTSE 100	100.00
...	...

Albion Fund Management Co. Ltd.	Capital 100.00
...	...

NOTES

Sugar deadlock puts U.K. supply in doubt

BY ROBIN REEVES

FRESH uncertainty about the source of Britain's sugar supply has arisen as a result of the breakdown of the sugar price negotiations between the European Community and African, Caribbean and Pacific (ACP) exporters at the week-end.

Talks at ministerial level, aimed at settling the minimum guaranteed price for up to 125m tonnes of ACP raw cane sugar during the year beginning July 1 ended in deadlock late on Friday night.

The EEC was prepared to shift only marginally from its original offer of 255 units of account (£150) per tonne. No new date has been set for a resumption of negotiations.

The ACP ministerial team, led by M. Sarram, Minister of Agriculture for Mauritius, made a final offer of 275 units of account per tonne. But M. Pierre Lardinois, the Luxembourg Commissioner for Agriculture, said this went well beyond his negotiating mandate.

It is uncertain whether the ACP's final offer still remains on the table or whether it has now

been withdrawn. There is considerable anger in the ACP camp both at the original figure offered by the Community and the almost total lack of manoeuvre granted to M. Pierre Lardinois by the Council of Agricultural Ministers for these negotiations with six ACP Ministers.

ACP sources said this constituted a negation of the Lome Convention (the framework for the sugar negotiations). The Community said the sources is only too anxious to boast about the convention at other times as a model pact for relations between the developed and developing world.

They argue forcibly that the EEC's take-it-or-leave-it position does not square with the Convention's requirements that there should be an annual negotiation, taking into account all economic factors, on the price to be paid for the 125m tonnes of ACP sugar, most of which goes to U.K. refineries.

According to the letter of the Convention, these negotiations must be completed by May 1. As a result, the two sides have resorted to the time-honoured

EEC practice of stopping the clock. The new guaranteed minimum price would not in any case take effect until July. In the meantime, both sides will be keeping an eye on the world sugar market, the movement of which could affect negotiating positions.

Foreign Ministers of the Nine assembled in Brussels to-morrow for a regular Council meeting. The presiding chairman, M. Gaston Thorn, the Luxembourg Prime Minister, is pressing for substantial progress towards settling the share-out of seats for direct elections to the European Parliament, hopefully from 1978 onwards.

This follows the failure of last month's Luxembourg Summit of the EEC Heads of Government to resolve the issue.

Ministers will also discuss a programme for implementing the report of M. Leo Tindemans, the Belgian Prime Minister, on moves towards European union, and arrangements for reopening negotiations with Spain on a new trade pact, also with Greece on its application for full EEC membership.

Reagan sweeps to victory in Texas

BY JUREK MARTIN, U.S. EDITOR HOUSTON, TEXAS, May 2

PRESIDENT Ford's slow march to the Republican Party's Presidential nomination came to a grinding halt in Texas yesterday.

Governor Ronald Reagan, from California, the conservative challenger, trounced the President in the State's primary election, sweeping all 96 delegates and out-polling him by about two to one.

The political map of America has therefore changed dramatically in the five days since the Pennsylvania primary last Tuesday.

It is now the Republican Party which is fraught with uncertainty, while the previously underdog Democrats appear to be resolving their many disputes with remarkable alacrity.

Governor Jimmy Carter from Georgia yesterday added a new sweep in Texas to his Pennsylvania triumph, crushing the favourite son candidacy of Texas Senator Lloyd Bentsen.

At the same time, Senator Henry Jackson, the leading conservative candidate, announced in his home State of Washington that, short of both money and hope, he was stopping active campaigning.

With Senator Hubert Humphrey (who had said he would serve if called by the Democratic convention in the event of deadlock) also out of the way, there seems nobody to prevent Mr. Carter winning the Democratic nomination unless Congressman Morris Udall from Arizona, the only other survivor of the primaries so far, improbably catches fire, or Governor Jerry Brown of California pulls a mystical rabbit out of the hat.

The weight of opinion is still that Mr. Ford will get the Republican nomination in the end, though the prediction has a less confident ring to it now. It is clear that in order to gain it he is going to have to do something

to seduce the Right-wing of the party that Mr. Reagan has made his.

There is little that can be said in mitigation for Mr. Ford's performance in Texas. It is true that the State is ultra-conservative, susceptible to the appeals to God and country which marked both the Ford and Reagan campaigns, but which clearly were better expressed by Mr. Reagan.

The heavy turnout yesterday on the Republican side reflected the fact that many conservative Democrats foresaw the fading of Governor George Wallace of Alabama and hopped over into the Reagan camp. Such cross-over voting is not generally permitted in the primaries.

Mr. Ford was also hurt locally by his advocacy of the Energy Bill, disliked here because of the curbs it places on oil and gas exploration. Equally, his economic argument went down less well in a prosperous State which largely avoided the national recession of 1974-75.

It may also be that Mr. Reagan's attack on American plans ultimately to cede control of the Panama Canal really did take hold here, Texas has both a long border with Mexico and considerable commercial interest in the Gulf of Mexico and, through that, Central America.

But even if there were some special factors at work in Texas, the President still suffered a humiliating personal setback. He devoted much of the last fortnight to campaigning here. As he said he had started out as the underdog, but towards the end of last week he allowed himself to hint at success.

His attacks on his opponent were the sharpest to date. He called Mr. Reagan "superficial, irresponsible, inexperienced" and doubted his confidence for office. He may have cause to regret these words now.

Russians in London property deal row

BY MICHAEL THOMPSON-NOEL

REPORTS that the Soviet Embassy has been pressing the Government to allow it to carry out an extensive property development on sites adjoining Kensington Palace Gardens, London's "Millionaires' Row," have stirred a political controversy.

Mr. Michael Brotherton, Conservative MP for Louth, is to approach the Foreign Office about "implications" of the normal planning procedures will be by-passed.

Sir Brandon Rhys Williams, Conservative MP for Kensington, said the entire issue would have to be raised in the House of Commons.

The reports said that the Soviet Embassy hopes to build a residential and office complex and a cultural centre, which together could involve 500,000 square feet of space. They would be among the largest property developments in central London since the war.

The scheme is bound to invite the wrath of conservationists because it involves the demolition of buildings listed as of architectural and historic interest.

Mr. Brotherton said yesterday: "This looks like Anthony Crosland's national iron curtain week. [Mr. Crosland is the Foreign Secretary.] Hard on the heels of the expulsion of the Hungarians comes this report that the Foreign Office is engaged in negotiations to increase enormously the number of Russian diplomats of various sorts—cultural and otherwise—based in London."

"Will we never learn that these people are out to destroy our way of life and to encourage them in this aim is to seek our own destruction?"

Sir Brandon said there would have to be a full public debate. "I do not agree with this plan. It seems to mean a huge enclave, probably behind walls, in which the Soviets in London comment."

will have all their own facilities and be cut off from the British community."

In a statement the Foreign Office confirmed that discussions had taken place with the Soviet Embassy aimed at the reciprocal provision of embassy office and residential accommodation in Moscow and London.

The Foreign and Commonwealth Office was asked to make a Circular 80 notification to Kensington and Chelsea Borough Council for proposals for two sites. Final details were not yet determined but that application would go through "normal processes of planning consideration, including full public consultation."

A spokesman for the Department of the Environment confirmed that the procedure under a Circular 80 notification was different from normal planning procedures.

Old barracks
If the local authority objected to the Soviet proposals a request could be made to the Environment Secretary who then had discretion to decide whether a public inquiry was necessary.

Under normal procedures a public inquiry has to be held if there are objections.

The land for both projected development sites is owned by the Crown Estates. Reports say that the Soviet Embassy occupies four of the large mansions in Kensington Palace Gardens, numbers 10, 13, 16 and 18. It also has a lease on number 5, at present the Soviet Consulate.

The two sites are described as a three-acre L-shaped area on the corner of Kensington Palace Gardens and Bayswater Road and a one-and-a-half-acre plot between "Millionaires' Row" and Church Street, occupied by the old Kensington Barracks, closed in 1972.

Last night the embassy said there was "no one available to comment."

First personnel chief of State shipbuilding

BY JOHN WYLES, SHIPPING CORRESPONDENT

THE Government is expected to announce this week that Mr. Tony Peers, industrial relations director of the Engineering Employers' Federation, is to be appointed the first personnel chief of the Shipbuilding Industry Corporation which will run shipbuilding after nationalisation.

The announcement also is expected to cover the appointments as part-time members of British Shipbuilders' organising committee of Mr. John Chalmers, general secretary of the Boilermakers' Amalgamation, and of Mr. Les Gregory, national officer of the Electrical and Plumbing Trades Union.

Mr. Peers, a 52-year-old Scot, has been in charge of the federation's industrial relations since

1972. His experience of dealing with the Confederation of Shipbuilding and Engineering Unions is likely to be useful in trying to point the Shipbuilding Industry Corporation towards a future of fewer strikes and better productivity.

Of the two trade union appointments to be announced, only one is likely to stay on as a full-time director of British Shipbuilders after vesting day. This will probably be Mr. Chalmers whose new responsibilities would force him to withdraw from his present position as a highly influential trade union member of the Labour Party's establishment.

Fourth appointment to the organising committee expected this week is that of Mr. Ross Beley, president of the Shipbuilders and Repairers' National Association.

THE LEX COLUMN

Equity bank near launch date

It has been said before, but this time it really does look as though the institutions' Equity Bank—or Equity Capital for Industry, as it is now called—is finally going to get off the ground in the next couple of weeks. After so many delays, the launch may be written off as an anti-climax, since the sums involved are very much smaller than originally envisaged. That would be unfair. For although the role of the new organisation is still open to question, the debate has certainly resolved some of the more dubious features of the original proposals.

In the first place, it is not now going to be exclusively a City affair. There is still no chief executive, but the Board seems to be of a high calibre, and will not be limited to institutional representatives since Lord Plowden is also bringing in two industrialists as independent directors. Interestingly, it seems that among the directors are some of those who were originally hostile to the whole idea.

Moreover, the experiment is going to be much more closely controlled than at one stage seemed possible. There is still no way of measuring the likely demand for the funds, but instead of jumping in at the deep end with an authorised capital of £500m, ECI is going to start with an authorised and issued capital of £50m. Borrowings will be limited to 50 per cent of net worth, and if there does turn out to be a heavy demand for funds, then fresh money will be raised by way of rights issues.

So the organisation has to succeed in order to get bigger. Just as important, provision has been made to wind the whole show up if it turns out to be completely lacking in impact. But although measuring the size of investment may be easy enough, it will take a long time to establish whether adequate profitability is being achieved.

ECI stresses that investment should be justified unless it can show the prospect of adequate profitability in the short to medium term. It expects to get an immediate return on some of

its money, although by the nature of things it will have to wait longer for a pay-back on many of its investments. Its primary role is to supply equity capital for manufacturing industry—often as part of a package involving loans from the banks or FFI—and its possible use as a focal point for institutional concern about the management of particular companies has been very much subordinated to this task.

The next step will be to publish a prospectus. The various institutional groups will be invited to put up fixed proportions—£1m. from the pension funds, £4m. from the unit trusts and so on—and provided a pre-determined minimum level of subscriptions is reached, the operation will go ahead. Having got so far, this now seems assured. As long as the cut-off point is passed, any shortfall on the £50m. will probably be offered back to accepting institutions, some of whom are prepared to take up more than their pro rata share.

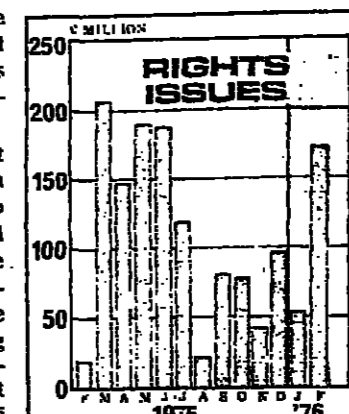
Compared with the £1.6bn. of money raised by rights issues over the past fifteen months, the new organisation is obviously only going to make a marginal difference to the total flow of funds to industry. But it will provide an extra facility, which can grow bigger if it does turn out to be valuable. It could be that its role will become more obvious when credit becomes less readily available; the idea, after all, was born out of the crisis conditions of 1975. Meanwhile, once it is established it will be in everyone's interest to make ECI work.

Dividend threat
Phillips and Drew's station accounting can appear to be sufficient to persuade them to their campaign against implementation of the proposals in their press. The threat is to divide in 1977, by which time profits should have recovered, the estimate that nearly constituents of the Share Index will be cover their present out of current cost of

The question is: is it right to restrict this to whatever can be of operating gains, an extent they will insist out part of the dividend? A possibility accepted Sandilands report, 1 point out that ignoring items as Sandilands create an cautious attitude towards. Despite the over-distribution of few years, gearing is no higher than it 950, and company sheets are now stre

Thus P and D still Sandilands basis that companies debt could an average of 26 per cent, by 1977. The some modifications. Sandilands system will reduce the bias against first, the adjustment should debtors and creditors. Second, more controversial holdings gains attributed as being not

Although this sector right in principle, it against the distinct companies to borrow dividend. More it raises a tax difficulty, the probable tax rule holding gains being ferred there would relieved ACT pro course, companies can have it both ways: financed holding gain tributable, then they properly liable to c



Callaghan warning on General Election

BY PHILIP RAWSTORNE

MR. JAMES CALLAGHAN, who this week faces a determined challenge to his Government's proposal to maintain Labour's majority on the Commons legislative committees, gave a warning yesterday that he would call a General Election if Opposition parties combined to make government impossible.

"I don't intend to remain head of a paralysed Government," he said in an interview in the Sunday Mirror.

Mr. Callaghan said that at the moment he did not foresee an election. "I think what the country needs is a period of steady government," he added.

The Opposition parties were not yet making life impossible for the Government, Mr. Callaghan said. But if they combined to do so then the country would have to decide the issue.

The Opposition's united efforts to wrest control of the Commons committees from the Government could soon force Mr. Callaghan's hand.

With the backing of the minority parties, Tory leaders in the Commons will press to a vote the constitutional wrangle over whether the minority Labour Government is entitled to maintain a majority on newly-formed committees.

If the Government's position—secured by the casting vote of Mr. Hugh Delargy, Labour chairman of the Commons Selection Committee—is successfully challenged, the Shadow Cabinet intends to-morrow night to divide the Commons again in an attempt to obtain equal representation on the committees for Government and Opposition parties.

Such a situation could create immediate difficulties for the Government in getting the Finance Bill and pay-beds legislation through the Commons. The problems would be increased next session as all the Commons committees reflected the Government's minority position.

Conservative leaders, fully alerted for an early General Election, believe that Mr. Callaghan would have little alternative but to go to the country.

They consider that the Prime Minister, quite apart from this prospect, must have contingency plans for a snap election this year.

Recent opinion polls appear to have been moving in Labour's favour and they believe the successful conclusion of a new pay deal with the trade unions could well tempt Mr. Callaghan to seek a stronger mandate.

Editorial comment, Page 12

Tories hope for district council successes

Financial Times Reporter

THE Conservatives are expected to make substantial gains when district councils in England and Wales go to the polls on Thursday. This is the first electoral test of public opinion since Mr. James Callaghan took over the Premiership.

At stake are about 840 seats or a third of the total on the 36 metropolitan district councils in the English conurbations in the Midlands and North and all 15,100 seats on the 335 non-metropolitan district councils.

Voting for these seats last took place in 1973 during a low point in the Heath government's fortunes.

Party workers
Few professional party workers expect the Conservatives to do as well as last year when the first batch of metropolitan district elections since local government reorganisation of 1974 were held. Conservative MP for Louth, is to approach the Foreign Office about "implications" of the normal planning procedures will be by-passed.

Sir Brandon Rhys Williams, Conservative MP for Kensington, said the entire issue would have to be raised in the House of Commons.

The reports said that the Soviet Embassy hopes to build a residential and office complex and a cultural centre, which together could involve 500,000 square feet of space. They would be among the largest property developments in central London since the war.

The scheme is bound to invite the wrath of conservationists because it involves the demolition of buildings listed as of architectural and historic interest.

Mr. Brotherton said yesterday: "This looks like Anthony Crosland's national iron curtain week. [Mr. Crosland is the Foreign Secretary.] Hard on the heels of the expulsion of the Hungarians comes this report that the Foreign Office is engaged in negotiations to increase enormously the number of Russian diplomats of various sorts—cultural and otherwise—based in London."

"Will we never learn that these people are out to destroy our way of life and to encourage them in this aim is to seek our own destruction?"

Sir Brandon said there would have to be a full public debate. "I do not agree with this plan. It seems to mean a huge enclave, probably behind walls, in which the Soviets in London comment."

Local elections are not being held this year in Greater London and Scotland. Odds against Labour have shortened, Page 23

Western shipowners seek end to Soviet rate cutting

BY JOHN WYLES, SHIPPING CORRESPONDENT

REPRESENTATIVES of leading British shipping companies are to have talks in Moscow this week over Soviet freight price policies, which have sparked a general barrage of demands by Western shipowners for Governments to act against alleged "rate-dumping" by the Russians.

The Moscow visit on behalf of their companies by Mr. Ronald Swaine, chairman of the Overseas Containers Limited consortium (OCL), and Mr. Alistair Lloyd, a director of Ellerman Lines, is part of a long-running attempt by European, American and Japanese shipowners to persuade the USSR to soften its commercial attitude on established Western liner services.

Paralleling these moves, some Western governments are now making direct approaches to Moscow over Russian attempts to capture significant portions of the non-Soviet trades by quoting rates up to 30 per cent below traditional shipping conference rates as a "take-it-or-leave-it" tactic.

These tactics have enabled the Russians to make big gains in a number of trades.

At the same time, Common Market governments have been discussing the possibilities of joint action to protect their shipowners. Although the British Government could use the Merchant Shipping Acts to penalise the Soviet Union, the fact that

other governments lack similar powers appears to be a major problem in the need for collective action were agreed.

It is believed that some concern is felt in Moscow that European governments are beginning to respond to their shipowners' complaints, and that there is a Bill before the United States Congress which could be used against Soviet shipping.

Whether this is translated into a more moderate approach remains to be seen, but this week's talks in Moscow are taking place on a Russian invitation.

In recent years both OCL and Ellerman have come under strong pressure from the Russians in prime trades, they operate between the U.K. and Australasia and the U.K. and the Far East.

Among other things, Mr. Swaine and Mr. Lloyd intend to try to explain to Soviet shipping officials how Russian freight rates cannot meet the costs of operation, depreciation and return on capital as calculated in the West.

In a conciliatory mood, they are likely to stress that they are willing to try to accommodate Russian demands for a share of the trades in which their companies are involved, providing the Russians accept established commercial criteria.

However, this is unlikely to prevent the curbing of a number of local authorities changing hands. In the metropolitan districts, the Conservatives' best chance is at Tameside in Greater Manchester.

Birmingham and Kirklees, the Buddenfield area of West Yorkshire, also could go Conservative while Labour could lose their majority at Oldham and South Tyneside.

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Italian election prospects

and security forces perturbed by a week of political violence which included the assassination of a neo-fascist (MSI) provincial councillor in Milan, and the death of a Leftwing youth killed during a clash between Right and Leftwing extremist groups in the same city.

Most union speeches insisted on the need for an autonomous role for the trade union movement, whatever government came to power. But May Day was doubly significant this year due to a final agreement on the pay national labour contracts for more than 1.4m engineering workers in the private sector reached after four months of negotiations.

The new contract, due to be ratified by the rank-and-file this

week, provides for a total lira 37,000 a month (£22) flat wage increase over the three-year life of the contract, a ceiling of 150 hours a year to overtime working, recognition of trade union right to be consulted on investment decisions, a compromise agreement on hours which gives one extra day a month off for civil workers and a paid half-hour lunch break for shift workers at Fiat and other plants.

This only takes effect, however, from July 1978 and within the context of higher investment and union co-operation in maintaining production levels.

The unions have agreed to self-discipline unjustified absenteeism, a major problem in Italian industry. Six Bruno Trentin, one of the leaders of the engin-

ering union FIM estimated that the contract would raise labour costs by 15 per cent.

However, the industrialist association estimates are closer to 20 per cent, and Sir Walter Mandelli, Federmeccanica president, expressed disappointment that the unions had not given cast-iron guarantees to raise productivity.

Agreement on this key contract—which follows agreement on both a building and chemical workers' contract—removes one of the major sources of tension and uncertainty.

It should lead to a rapid return to normal working at a time when lira devaluation and the economic upturn in Germany and the U.S. is showing through in higher order-books and rising industrial activity.

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